

A wide-angle photograph of a forested landscape. In the foreground, a dense stand of tall evergreen trees stretches across the frame. Above them, the sky is a deep, hazy blue, suggesting either dawn or dusk. In the far distance, faint outlines of mountains are visible through the haze.

**MacMillan Bloedel Limited 1977 Annual Report**



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The cover photograph, taken on Vancouver Island, shows a newly-harvested area, mature Douglas fir and healthy second growth. It introduces our report, which begins on page two, on how the Company manages the coast forest in British Columbia as a constantly renewed resource.

# MacMillan Bloedel Limited and Subsidiaries

## Financial Highlights

AR07



MacMillan Bloedel Limited

and Subsidiary Companies

Per Cent  
Increase  
Decrease)

## Report to the Shareholders for the Six Months Ended June 30, 1977

In the first half of 1977 the Company earned \$23.6 million, which amounts to \$1.07 per common share after provision for dividends on the new preferred shares issued in May. In the depressed first half of 1976 the Company earned \$10.1 million or \$.48 per common share. Sales and other income totalled \$827 million this year, compared to \$742 million last year.

Second quarter earnings were \$15.9 million, or \$.71 per common share, compared to \$9.5 million or \$.45 per common share last year.

These results benefited from the increasing strength in recent months of the U.S. dollar relative to the Canadian dollar. The reduction in value of the Canadian dollar reflects underlying weakness in the Canadian economy.

Shipments of lumber increased substantially in the second quarter, particularly to the United States as a result of the strong housing market

in that country. However, price levels for most grades of lumber showed only modest improvement. Canadian plywood markets continued to be relatively depressed.

Newsprint sales were strong in the second quarter, partially due to inventory building by publishers. Markets for kraft pulp in both Europe and Japan are depressed and are expected to remain so for the balance of the year. United States markets for both linerboard and corrugated shipping containers have strengthened, and price increases in the United States for both products were announced by the Company effective June 1st.

During the second half we expect that production costs will increase faster than prices and consequently that margins will be under pressure. The Company's third quarter earnings are usually lower than those of the second quarter. However, by the end of the year

12.6%
165.4
67.9
152.3
54.2
33.8
33.8
22.2
14.3
14.3
36.8
3.1
(9.9)
60.7
45.7

23.4
(16.9)
6.3
(19.3)
5.2
(.3)
1.1

percentage of  
as, equity in  
t expense.  
t equity.

## FINANCIAL HIGHLIGHTS

	Six months ended June 30		Three months ended June 30	
	1977	1976	1977	1976
Sales and other income (millions) . . . . .	\$826.6	\$741.7	\$457.3	\$383.2
Net earnings (millions) . . . . .	\$ 23.6	\$ 10.1	\$ 15.9	\$ 9.5
Net earnings per common share (dollars) . . . . .	\$ 1.07	\$ .48	\$ .71	\$ .45
Dividends on common shares (millions) . . . . .	\$ 4.2	—	\$ 2.1	—
Dividends per common share (dollars) . . . . .	\$ .20	—	\$ .10	—
Cash flow from operations (millions) . . . . .	\$ 66.9	\$ 53.7	\$ 39.1	\$ 32.7
Cash flow from operations per common share (dollars) . . . . .	\$ 3.15	\$ 2.53	\$ 1.84	\$ 1.54
Return on capital employed . . . . .	6.0%	3.4%	7.5%	5.2%
Book value per common share at end of period (dollars) . . . . .	\$24.32	\$23.21	\$24.32	\$23.21

Unaudited

conditions should be generally firming in most pulp, paper and packaging markets, and sales of most of our wood products should remain strong well into 1978 subject to normal seasonal patterns.

Overall, however, the outcome for the balance of this year will be heavily influenced by two factors: first, the pace of economic activity in the United States, Western Europe and Japan, which are the principal export markets for the Company's products; and second, the outcome of the current labour negotiations affecting most of the Company's hourly employees in British Columbia.

J. E. Richardson  
Chairman of the Board

Vancouver, Canada  
July 29, 1977

On May 2, 1977 the Company issued U.S. \$85 million of preferred shares. \$25.1 million of the proceeds of this issue were used to purchase from minority interests all the outstanding preference shares of MacMillan Rothesay Limited. The balance will assist in financing the capital expenditure programs aimed at improving the productivity of our existing harvest, transportation and production facilities.

The Directors have declared a dividend of 10 cents per share payable on September 15, 1977, to shareholders of record August 23, 1977.

C. Calvert Knudsen  
President and Chief Executive Officer

#### **CONSOLIDATED STATEMENT OF EARNINGS** (millions of dollars)

	<i>Six months ended June 30</i>		<i>Three months ended June 30</i>	
	<b>1977</b>	<b>1976</b>	<b>1977</b>	<b>1976</b>
Sales and other income .....	<u>\$826.6</u>	<u>\$741.7</u>	<u>\$457.3</u>	<u>\$383.2</u>
Costs and expenses:				
Cost of sales and services .....	699.5	637.6	383.1	320.4
Selling, general and administrative .....	61.8	55.1	32.3	28.5
Interest .....	16.5	16.1	8.1	8.1
	<u>777.8</u>	<u>708.8</u>	<u>423.5</u>	<u>357.0</u>
Earnings before income taxes and other undenoted items .....	48.8	32.9	33.8	26.2
Income taxes (Note 2) .....	26.0	20.5	18.4	14.9
Earnings before undenoted items .....	22.8	12.4	15.4	11.3
Equity in earnings (losses) of partly-owned companies .....	2.1	(2.2)	.8	(1.3)
Minority interests in subsidiaries .....	(1.6)	(.1)	(.5)	(.5)
Earnings before extraordinary item .....	23.3	10.1	15.7	9.5
Extraordinary item (net of minority interest) .....	.3	—	.2	—
Net earnings .....	<u>\$ 23.6</u>	<u>\$ 10.1</u>	<u>\$ 15.9</u>	<u>\$ 9.5</u>
Weighted average number of common shares outstanding (thousands) .....	21,261	21,261	21,261	21,261
Basic net earnings per common share (dollars):				
Before extraordinary item .....	\$ 1.06	\$ .48	\$ .70	\$ .45
After extraordinary item .....	\$ 1.07	\$ .48	\$ .71	\$ .45

Unaudited

## CONSOLIDATED BALANCE SHEET

(millions of dollars)

June 30

1977

1976

### ASSETS

#### Current assets:

Accounts receivable .....	\$ 205.0	\$ 175.5
Inventories .....	296.2	252.6
Other .....	66.4	44.5
	<hr/>	<hr/>
Investments and other assets .....	567.6	472.6
Property, plant and equipment, less accumulated depreciation, depletion and amortization .....	97.3	90.4
Intangible assets, less amortization .....	658.9	666.3
	<hr/>	<hr/>
	28.8	28.0
	<hr/>	<hr/>
	\$1,352.6	\$1,257.3

### LIABILITIES

#### Current liabilities:

Accounts payable and accrued liabilities .....	\$ 176.4	\$ 162.8
Other .....	78.6	68.0
	<hr/>	<hr/>
Long term debt .....	255.0	230.8
Deferred income taxes .....	351.7	376.6
Minority interests in subsidiaries (Note 1) .....	118.5	109.0
	<hr/>	<hr/>
	22.5	47.4
	<hr/>	<hr/>
	747.7	763.8

### SHAREHOLDERS' EQUITY

Share capital (Note 1) .....	259.1	171.2
Retained earnings .....	345.8	322.3
	<hr/>	<hr/>
	604.9	493.5
	<hr/>	<hr/>
	\$1,352.6	\$1,257.3

Unaudited

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

(millions of dollars)

Six months ended

June 30

1977      1976

Three months ended

June 30

1977      1976

### SOURCE OF WORKING CAPITAL:

#### Earnings —

Net earnings .....	\$ 23.6	\$ 10.1	\$ 15.9	\$ 9.5
Depreciation, depletion and amortization of logging roads .....	35.9	34.7	18.3	18.2
Other components not affecting working capital (net) .....	7.4	8.9	4.9	5.0
	<hr/>	<hr/>	<hr/>	<hr/>
	66.9	53.7	39.1	32.7
Net proceeds of preferred shares (Note 1) .....	87.6	—	87.6	—
Net proceeds of long term debt .....	11.4	39.9	5.2	39.1
Equity provided by minority interests (net) .....	—	.3	—	.3
Proceeds of disposals of long term assets .....	7.4	1.4	3.9	1.0
	<hr/>	<hr/>	<hr/>	<hr/>
	173.3	95.3	135.8	73.1

### APPLICATION OF WORKING CAPITAL:

Additions to property, plant and equipment .....	29.2	28.0	17.0	17.8
Investments and other assets (including intangible assets) .....	4.4	2.1	1.9	1.5
Reduction in long term debt .....	32.5	10.4	28.6	8.3
Equity acquired from minority interests (Note 1) .....	25.1	—	25.1	—
Dividends — Shareholders of the Company .....	5.4	—	3.3	—
— Minority shareholders of subsidiaries .....	1.6	1.0	1.2	.4
	<hr/>	<hr/>	<hr/>	<hr/>
	98.2	41.5	77.1	28.0
Increase in working capital .....	75.1	53.8	58.7	45.1
Working capital at beginning of period .....	237.5	188.0	253.9	196.7
Working capital at end of period .....	<u>\$312.6</u>	<u>\$241.8</u>	<u>\$312.6</u>	<u>\$241.8</u>

Unaudited

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(millions of dollars)

*Six months ended  
June 30*

	<b>1977</b>	<b>1976</b>
Balance at beginning of period .....	\$327.6	\$312.2
Net earnings .....	<u>23.6</u>	<u>10.1</u>
	<u>351.2</u>	<u>322.3</u>
Dividends: Common shares — \$.20 per share .....	4.2	—
Preferred shares (Note 1) — \$.35 per share .....	1.2	—
	<u>5.4</u>	<u>—</u>
Balance at end of period .....	<u>\$345.8</u>	<u>\$322.3</u>

Unaudited

### NOTES:

1. Following approval of the shareholders, the Company's authorized capital was increased to 35,000,000 common shares without par value and 3,400,000 Class "A" Preferred shares without par value. On May 2, 1977 the Company issued 3,400,000 Class "A" Preferred shares for a total consideration of U.S. \$85,000,000. The Class "A" Preferred shares are redeemable after five years and retractable at the option of the holder after ten years and carry a cumulative dividend of 5 1/4% for the first five years and thereafter a dividend related to the U.S. bank prime rate. \$25,100,000 of the proceeds were utilized to purchase from minority interests the 6.75% cumulative redeemable preference shares of MacMillan Rothesay Limited.
2. The Canadian federal budget of March 31, 1977, proposed a deduction of 3% of the value of opening inventories be allowed when calculating taxable income. Pending enactment of the detailed regulations it is estimated that this measure would reduce the income taxes applicable to the first half of 1977 by approximately \$1,000,000.

These interim consolidated financial statements have been approved by the Board of Directors:

J. E. RICHARDSON, Director

C. Calvert KNUDSEN, Director

## Interim Report to the Shareholders for the Year Ended December 31, 1977

For the year ended December 31, 1977 MacMillan Bloedel Limited recorded earnings before extraordinary items of \$60.7 million (\$2.70 per common share) compared with \$22.8 million (\$1.07 per common share) in 1976. However, during 1977 the Company made the extraordinary provision of \$22.3 million referred to below, which reduced net earnings to \$38.4 million (\$1.65 per common share). Sales and other income totalled \$1,714.8 million in 1977 compared with \$1,523.3 million in 1976.

During the fourth quarter of 1977, earnings before extraordinary items amounted to \$22.8 million (\$1.01 per common share) compared with \$13.6 million (\$.58 per common share) during the third quarter. These results reflect improved contributions from the Company's newsprint and lumber operations, mainly due to stronger markets in the United States.

Markets for lumber products remained firm throughout the year reflecting the brisk pace of

residential construction activity in the United States. Markets for plywood remained depressed. The demand for newsprint in the Company's principal markets continued at high levels. However, profit margins were squeezed by rising costs in the linerboard and packaging sector. During the year world producers of kraft pulp attempted, with only limited success, to reduce their large inventories, and this resulted in major price erosion during the second half.

This deterioration of pulp prices seriously impaired the financial viability of La Cellulose d'Aquitaine, a French company in which MacMillan Bloedel holds a 40% equity interest. As announced in the previous quarterly Report to the Shareholders, MacMillan Bloedel established a full provision of \$22.3 million for its investment in that company. The provision is recorded as an extraordinary item in the Consolidated Statement of Earnings.

In January of this year, MacMillan Bloedel

### FINANCIAL HIGHLIGHTS

	Year ended December 31		Three months ended December 31	
	1977	1976	1977	1976
Sales and other income (millions)	\$1,714.8	\$1,523.3	\$455.8	\$402.4
Earnings before extraordinary items (millions)	\$ 60.7	\$ 22.8	\$ 22.8	\$ 9.4
Net earnings (millions)	\$ 38.4	\$ 22.8	\$ 22.5	\$ 9.4
Earnings per common share before extraordinary items (dollars)	\$ 2.70	\$ 1.07	\$ 1.01	\$ .44
Net earnings per common share (dollars)	\$ 1.65	\$ 1.07	\$ 1.00	\$ .44
Dividends on common shares (millions)	\$ 8.5	\$ 7.4	\$ 2.1	\$ 7.4
Dividends per common share (dollars)	\$ .40	\$ .35	\$ .10	\$ .35
Cash flow from operations (millions)	\$ 137.1	\$ 102.4	\$ 32.2	\$ 25.2
Cash flow from operations per common share (dollars)	\$ 6.44	\$ 4.81	\$ 1.51	\$ 1.18
Return on capital employed	5.2%	3.8%	10.1%	5.5%
Book value per common share at end of period (dollars)	\$ 24.69	\$ 23.46	\$ 24.69	\$ 23.46

Unaudited

announced its intention to phase down its oldest plywood plant, the Vancouver Plywood Mill, in order to avoid further operating losses. After lengthy negotiations with both the International Woodworkers of America and the Provincial Government, the Company will proceed to close down the most obsolete part of the plant.

However, based upon the assurances of the I.W.A. to cooperate with the Company to improve productivity at this mill and at other Company facilities, MacMillan Bloedel has agreed to upgrade and operate the balance for a minimum of two more years.

Losses from transportation activities were further reduced in 1977 primarily as a result of

the Company's program to reduce the size of its deep sea fleet.

The value of the Canadian dollar relative to the United States dollar and the pound sterling declined significantly in 1977 which increased the Company's net Canadian dollar realizations from sales denominated in U.S. dollars or in pounds sterling.

The Directors have declared a dividend of \$.10 per common share payable on March 15, 1978 to shareholders of record on February 21, 1978.

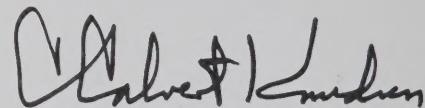
The annual report will be mailed in a few weeks along with the notice of the Annual General Meeting.



J. E. Richardson

Chairman of the Board

Vancouver, Canada  
February 28, 1978



C. Calvert Knudsen

President and Chief Executive Officer

### CONSOLIDATED STATEMENT OF EARNINGS

(millions of dollars)

	Year ended December 31		Three months ended December 31	
	1977	1976	1977	1976
Sales and other income .....	\$ 1,714.8	\$ 1,523.3	\$ 455.8	\$ 402.4
Costs and expenses:				
Cost of sales and services .....	1,443.1	1,315.9	376.5	347.5
Selling, general and administrative .....	125.8	114.5	33.3	30.3
Interest .....	32.3	33.7	8.0	8.9
	<u>1,601.2</u>	<u>1,464.1</u>	<u>417.8</u>	<u>386.7</u>
Earnings before income taxes and other undenoted items .....	113.6	59.2	38.0	15.7
Income taxes .....	54.1	36.1	16.3	8.8
Earnings before undenoted items .....	59.5	23.1	21.7	6.9
Equity in earnings of partly-owned companies .....	3.2	1.2	1.5	3.2
Minority interests in subsidiaries .....	(2.0)	(1.5)	(.4)	(.7)
Earnings before extraordinary items .....	60.7	22.8	22.8	9.4
Extraordinary items (Note) .....	22.3	—	.3	—
Net earnings .....	<u>\$ 38.4</u>	<u>\$ 22.8</u>	<u>\$ 22.5</u>	<u>\$ 9.4</u>
Weighted average number of common shares outstanding (thousands) .....	21,261	21,261	21,261	21,261
Basic net earnings per common share (dollars):				
Before extraordinary items .....	\$ 2.70	\$ 1.07	\$ 1.01	\$ .44
After extraordinary items .....	\$ 1.65	\$ 1.07	\$ 1.00	\$ .44

Subject to audit

NOTE:

The extraordinary charge against earnings of \$22.3 million for the year ended December 31, 1977 represents a provision for loss against the full amount of the Company's investment in La Cellulose d'Aquitaine, the hardwood pulp producer in France, in which MacMillan Bloedel holds a 40% equity interest.

This interim consolidated financial statement has been approved by the Board of Directors.

J. E. RICHARDSON, Director

C. C. KNUDSEN, Director

# MacMillan Bloedel Limited and Subsidiaries

## Financial Highlights

	1977	1976	Per Cent Increase (Decrease)
	(\$000)		
<b>For the year ended December 31</b>			
Sales and other income	\$ 1,714,800	\$ 1,523,344	12.6%
Net earnings –			
Amount:			
Before extraordinary item	\$ 60,618	\$ 22,842	165.4
After extraordinary item	\$ 38,349	\$ 22,842	67.9
Per Common share:			
Before extraordinary item (dollars)	\$ 2.70	\$ 1.07	152.3
After extraordinary item (dollars)	\$ 1.65	\$ 1.07	54.2
Cash flow from operations:			
Amount	\$ 137,004	\$ 102,360	33.8
Per Common share (dollars)	\$ 6.44	\$ 4.81	33.8
Additions to property, plant and equipment	\$ 77,353	\$ 63,325	22.2
Dividends on Common shares:			
Amount	\$ 8,505	\$ 7,441	14.3
Per Common share (dollars)	\$ .40	\$ .35	14.3
Return on capital employed (1)	5.2%	3.8%	36.8
Price range of stock (dollars):			
High	\$ 24.75	\$ 24.00	3.1
Low	\$ 16.00	\$ 17.75	(9.9)
Ratio of earnings to interest charges (2)	4.5:1	2.8:1	60.7
Return on Common shareholders' equity (3)	6.7%	4.6%	45.7
<b>At December 31</b>			
Working capital	\$ 292,950	\$ 237,490	23.4
Current ratio	2.0:1	2.0:1	—
Long term debt	\$ 309,779	\$ 372,755	(16.9)
Total assets	\$ 1,360,946	\$ 1,280,060	6.3
Percentage of long term debt to total capital employed	29.2%	36.2%	(19.3)
Book value of each Common share (dollars)	\$ 24.69	\$ 23.46	5.2
Number of Common shareholders	16,709	16,759	(.3)
Number of employees	23,865	23,601	1.1

(1) Return on capital employed is defined as net earnings plus minority interests and long term debt interest after tax as a percentage of total assets less current liabilities.

(2) The ratio of earnings to interest charges has been calculated on a consolidated basis by dividing earnings before income taxes, equity in earnings of partly-owned companies, minority interests in subsidiaries and extraordinary item plus interest expense by interest expense.

(3) Return on Common shareholders' equity is defined as net earnings available to Common shareholders as a percentage of that equity.

## Letter to the Shareholders

### Productivity Improvement

In the long run the success of an enterprise and the basic job security of its employees lie in achieving continuing productivity improvement through the development and application of new

technology. It is only through sustained and continuing productivity improvement that the Company can remain competitive in world markets.

Measured against this standard, the Company made substantial progress in 1977. Our program to upgrade our British Columbia base continued. In addition, we established new procedures to reduce and control overhead costs. Programs in both these areas will improve our cost structure for the future.

Construction of dryland sorting facilities was completed in our Sarita Woodlands Division and work has begun on similar sorting facilities at four other locations on the British Columbia coast at a total cost of \$5.8 million. These facilities materially reduce log losses which occur from sinkage during water handling and also permit better recovery of value from our timber harvest.

A contract was let for the construction of our second self-propelled log carrier to be built in Victoria, British Columbia at a cost of \$13.5 million. At Powell River, work is underway on the second thermo-mechanical pulping unit at an estimated cost of \$12 million and on the modernization of Number 8 newsprint machine at a

cost of \$5.7 million. Construction has recently been completed on the new \$22 million power boiler at Port Alberni. This boiler, which burns wood wastes, will reduce escalating fuel costs as well as lowering air emissions. With its start-up, the Company now generates 65% of the energy requirements of our British Columbia mills. In 1977, the Company acted to control overhead costs by introducing a Cost Effectiveness Budgeting process at the Vancouver head office. Reduction of services and staff levels will save approximately \$5 million in 1978. This new budgeting process is being extended to all operations of the Company.

In February of this year, after discussions with the Provincial Government

### Sales of Products and Services (millions of dollars)

		Per Cent Increase (Decrease)
1973	\$1,215	26%
1974	1,396	15
1975	1,297	(7)
1976	1,520	17
1977	1,707	12

### Sales of Products by Market

	1977	1976	1975	1974	1973
U.S.A.	49%	44%	43%	39%	48%
Canada	20	24	24	21	21
U.K. and Continental Europe	18	19	20	24	20
Japan and Orient	7	7	7	8	6
Other	6	6	6	8	5
	100%	100%	100%	100%	100%



Wood products, from building timbers to newspapers, are needed in vast quantities in the daily lives of the world's population. In primitive societies, and in advanced industrialized states, wood or its derivatives are important to human existence. In the face of such need, man has learned to plan, manage and protect the forests in perpetuity. At MacMillan Bloedel we are planting new forests in British Columbia to be harvested three generations from now.

and the International Woodworkers of America, we decided to implement a partial closure of our Vancouver plywood mill because of obsolescence. During 1978 we will phase out the older part of the mill, the A Mill, renovate the lathes in the newer part of the mill, the B Mill, and operate the B Mill for a minimum of two years from March 1, 1978. The A Mill closure and B Mill renovation will eliminate about 265 jobs, leaving about 435 jobs in B Mill. If, after March 1, 1980, the Company determines that the economics then indicate closure of the B Mill, the Provincial Government and the International Woodworkers of America have agreed to co-operate with us in the relocation and the placement of employees whose jobs are affected.

Partial closure is not as favorable an alternative for the Company as immediate full closure would be, since full closure would enable us to utilize the Vancouver Plywood log supply for the addition of profitable third shifts at our Canadian White Pine and New Westminster Division sawmills. However, through these arrangements we are assured of co-operation in an effort to improve productivity in the mill sufficiently to justify continued operations and, if we are unable to achieve that, to move to a full closure in 1980.

In addition, the International Woodworkers of America have agreed to co-operate with the Company, within the terms of existing collective bargaining agreements, in the implementation of

future MB programs for manpower changes in facilities and operations incident to investment in new technology, increased utilization of plant and equipment, and other types of productivity improvement.

We are particularly pleased to have been able to save 185 jobs for at least two years. The Vancouver Plywood closure and additional sawmill shifts would have eliminated a net of 450 jobs whereas the A Mill closure and B Mill renovation will eliminate 265 jobs.

We are also pleased that the International Woodworkers of America have maintained and again declared their historical policy of supporting productivity improvement and technological development.

#### Results of Operations

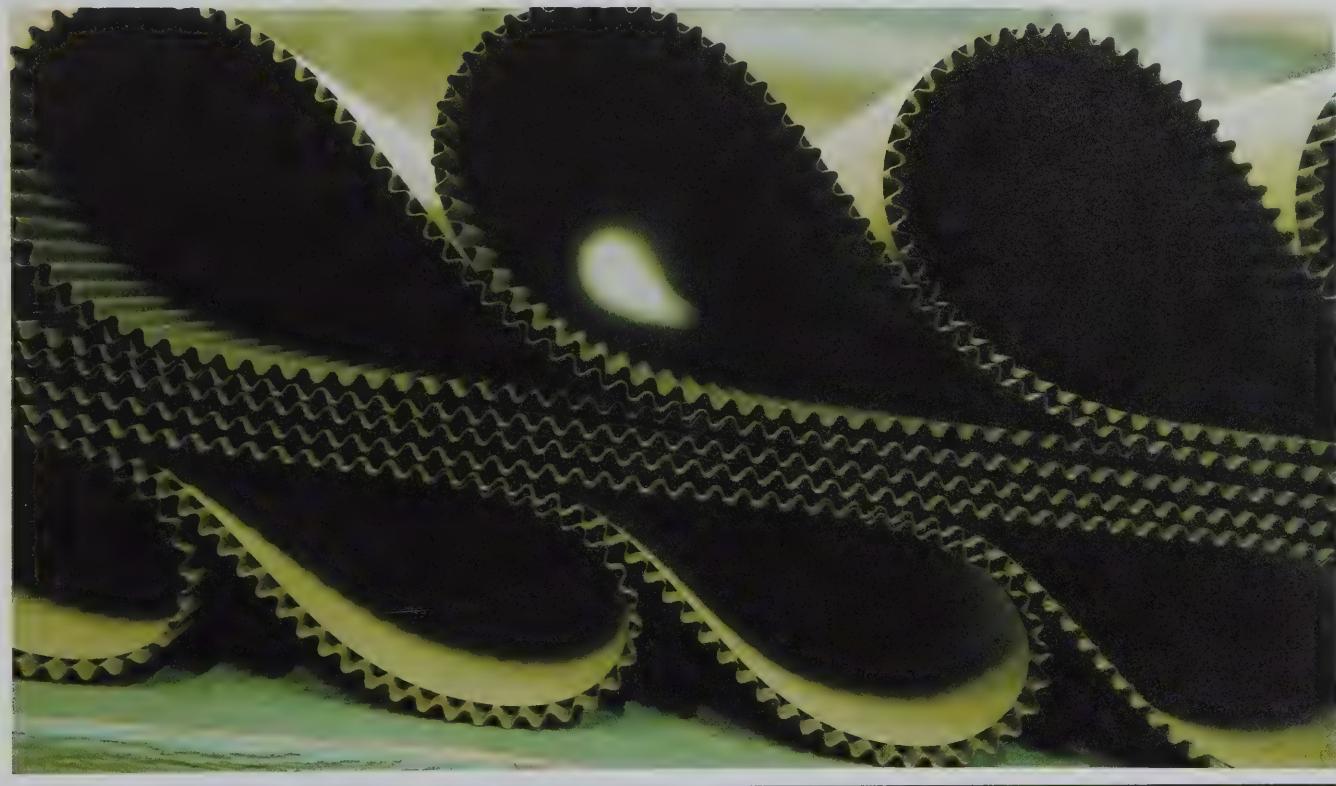
Measured against another standard, that of operating results, the Company also made substantial progress in 1977.

For the year the Company earned \$2.70 per Common share, before the extraordinary item described below, compared with \$1.07 per Common share in 1976. Operating cash flow in 1977 was \$6.44 per Common share compared with \$4.81 in 1976. Return on total capital employed was 5.2% and return on Common shareholders' equity 6.7%, compared with 3.8% and 4.6% in 1976.

Net earnings, before extraordinary item, were up 165.4% to \$60.7 million compared with \$22.8 million in 1976. Net earnings after extraordinary item were up 67.9% to \$38.4 million

**Contribution to Sales by Product**

	1977	1976	1975	1974	1973
<b>Lumber</b>	29%	29%	25%	32%	38%
<b>Panelboards</b>	11	10	11	9	12
<b>Newspaper</b>	23	23	25	22	19
<b>Pulp and Fine Paper</b>	10	13	12	12	8
<b>Linerboard and Corrugated Containers</b>	18	18	21	19	17
<b>Other</b>	9	7	6	6	6
<b>TOTAL</b>		100%	100%	100%	100%



compared with \$22.8 million in 1976. Sales and other income were up 12.6% to \$1,714.8 million compared with \$1,523.3 million in 1976.

The extraordinary item mentioned above was the establishment of a

\$22.3 million reserve against the Company's investment in La Cellulose d'Aquitaine S.A., a French pulp company in which MacMillan Bloedel acquired a 40% equity interest in 1974. The world-wide collapse of pulp prices in 1977,

coupled with other factors, adversely affected La Cellulose d'Aquitaine's current position and future prospects. The \$22.3 million reserve covers all our capital previously invested, as well as our share of earnings from earlier years. Notwithstanding this write-down we continue to participate in discussions that might lead to a restructuring of the capital and management of La Cellulose d'Aquitaine and make it a more viable operation.

Transportation activities incurred a loss of \$10.9 million, before tax recoveries, in 1977, compared with a loss of \$22.8 million in 1976. The reduction achieved in 1977 resulted from our continuing program of reducing the size of our

fleet to the level required to handle approximately 50% of the Company's own ocean shipping requirements. While transportation losses are expected to continue until freight markets improve, they should gradually decline with further changes in size and composition of the fleet. The 1977 results were positively affected in a major way by the decline in the value of the Canadian dollar relative to the United States dollar that occurred in 1977. This partially offset continuing increases in wages and prices paid for goods and services by the Company in Canada and elsewhere.

#### Financial Position

Measured against a third standard, that of financial strength, the Company yet again made progress in 1977. Our ratio of long

#### Distribution of Total Income

Total income includes equity in earnings of partly-owned companies.

	1977	1976
<b>Purchases of goods, supplies and services</b>	59.8%	60.0%
<b>Wages, salaries and employee benefits</b>	28.0	29.1
<b>Federal, provincial, state and municipal direct taxes</b>	5.8	4.8
<b>Depreciation, depletion and amortization</b>	4.1	4.5
<b>Minority interests in subsidiaries</b>	.1	.1
<b>Dividends</b>	.7	.5
<b>Earnings retained</b>	1.5	1.0
	100.0%	100.0%

Management of the forests as a constantly renewed resource proceeds from harvesting through planting to between-crop production, and then to a new harvest and replanting with no interruption. It is like the turning of a wheel. In time, much of the world's forests will be managed in this way, by people trained in forestry, engineering and related disciplines. Managed forests are more productive than those left untended. Beyond this, MB's specialists are looking at new potential that may be found in genetic improvement, that is, greater forest productivity from superior strains of trees, and from the use of fertilizers.



term debt to total capital employed improved from 36.2% to 29.2% and our interest coverage ratio went up to 4.5 from 2.8. These ratios are important indications of the Company's financial strength and, accordingly, of its ability to finance the establishment of new technology in our facilities and operations.

Our total shareholders' equity increased a net of \$114.1 million during the year from the addition of net earnings and the sale of preferred shares, and after payment of common and preferred dividends. In addition, the Company's liquidity is excellent. We ended the year with a net

of \$40.0 million in cash or equivalent, up from a net borrowed position of \$39.5 million at the beginning of the year. We have firm credit agreements for a total of \$153.7 million for terms of 7 and 8 years. These funds are available as needed but not currently drawn upon. In addition, we have short term credit lines of up to \$121.3 million available to us, of which \$7.4 million had been utilized at December 31, 1977.

#### 1978 Outlook

The year 1977 was one of contrasts in our principal world markets. Strong price levels for lumber and newsprint contrasted

against weak and deteriorating prices for linerboard and pulp. In packaging, the United Kingdom markets remained strong and profitable in contrast to weakness in North America.

These contrasts reflected the state of the world's principal developed economies. For 1978, the signals are still mixed. Lumber and newsprint remain strong, linerboard shows signs of improvement, but pulp remains weak. We are cautiously optimistic for the year as a whole, expecting lumber to weaken and linerboard and pulp to strengthen.

In closing we should like to thank all of MacMillan Bloedel's dedicated employees for the success that was achieved in 1977. Their efforts in 1977 established a strong base for further success in 1978 and thereafter.



J. Ernest Richardson  
Chairman of the Board



C. Calvert Knudsen  
President and  
Chief Executive Officer

Vancouver, Canada  
March 27, 1978



We are also exploring cheaper ways of getting the logs out of the woods to the mills. All this recognizes that no tree is a marketable commodity unless it can be sold at a competitive price, and return a profit.

## Highlights of 1977 operations

Strong newsprint and lumber markets in the United States, a more realistic value of the Canadian dollar, and diminishing transportation losses brought substantial profit gains to the

Company in 1977. Before extraordinary items, the Company recorded a 1977 net profit of \$60.7 million from logging, converting and distribution operations. Having regard to the upward thrust of costs, the collapse of world pulp prices, and the intensely competitive linerboard and packaging markets, the year's performance overall was encouraging. As a percentage of sales and other income, the selling, general and

administrative costs of the Company dropped from 7.5% to 7.3% although they rose in dollars over 1976. In addition to the Cost Effectiveness Budgeting system mentioned in the Letter to the Shareholders, a special section has been established at Head Office which will examine many of the overhead functions with the objective of achieving maximum management efficiency throughout the organization.



The shape and look of a new forest is determined long before nursery seedlings are put in the ground. It's part of a procedure called forest engineering. Harvesting and regeneration are both planned with an eye to protecting other forest values as well as economics. MacMillan Bloedel's Forestry Research section in B.C. includes a permanent working group known as the Land Use Planning Advisory Team or, for convenience, LUPAT.

They are the people to whom logging planners and foresters turn when they have difficult environmental decisions to make. LUPAT is headed by a wildlife biologist. Working with him on the team are two soils specialists, two fisheries biologists, another wildlife biologist and a resource technician. With their help we can carry on the complex business of harvesting forest crops and planting new ones while, at the same time, identifying and

protecting wildlife habitats and other areas of special value. Using maps and aerial photographs, regional foresters pinpoint timber tracts where most of the trees are fully grown or "over-mature", so old that they have almost stopped growing. They are subject to disease, insect attack and wind damage. The old stands are then studied on the spot and identified in the logging plans for prompt harvest.



In early 1977, as part of a number of organizational changes, forestry and logging operations in British Columbia were separated from the Building Materials Group to form the Raw Materials Group. Logging costs have increased dramatically in recent years. By placing forestry and logging in a separate profit centre it is possible

to highlight our efforts to contain the growth of unit log costs and to increase log values through improved log manufacture.

Log production in 1977 was 3.7 million cu mts (3.9 in 1976) in all operating areas. As a result of this high level of production and increased log prices, the raw materials operations made a contribution to operating profits (before interest, corporate overhead and income taxes), of \$11.4 million compared with a loss of \$3.8 million in 1976. (The latter figure formed part of the building materials operations in 1976.) See note 2 page 16.

nflexible application of the B.C. Logging Guidelines has caused major increases in road and other logging costs in recent years. Some progress was made during the year, in discussions with the British Columbia Forest Service, in achieving a more equitable application of the Guidelines. Further progress is hoped for in 1978.

The Company continued its intensive forestry program during the year, and planted another 15,786 acres in British Columbia — bringing to 233,157 acres the total area planted by the

Company since the inception of the program. In Alabama in 1977, 17,573 acres of forest lands controlled by the Company were planted.

The Government of British Columbia has announced that it will submit legislation for a new Forest Act in 1978. The Company's views on forest policy were submitted in detail in prior years to the Pearse Royal Commission on Forest Resources and in 1977 to the Forest Policy Advisory Committee which was established to study the Pearse Commission report and recommend legislative changes.



Besides age, foresters look for disease. A stand heavily infected by dwarf mistletoe, for example, would be recommended for early logging because any new growth would be taken away by the parasite. Trees in that stand should be cut while the wood is still sound.

## Building Materials

margins over rising conversion costs. Thus, the Company's building materials operations contributed \$19.2 million during the year to total operating profit, compared with \$6.0 million in 1976. See note 2 page 16.

Apart from the U.S., lumber markets were not strong. Lumber markets in Japan and Europe in particular were

disappointing. Similarly, the Canadian plywood market — to which 72% of the Company's production is directed — was depressed.

In line with the Company's plans for modernization and improved productivity, design and feasibility studies will be completed during the next few months with respect to a major program to upgrade

sawmill and plywood facilities at Port Alberni. The Company's Thunder Bay waferboard plant reached new high levels of production in 1977. ASPENITE®, the Company's trade-marked waferboard, continued to be a profitable product line, achieving a significant increase in shipments to the United States.

### Sales of Building Material Products\* (millions of dollars)

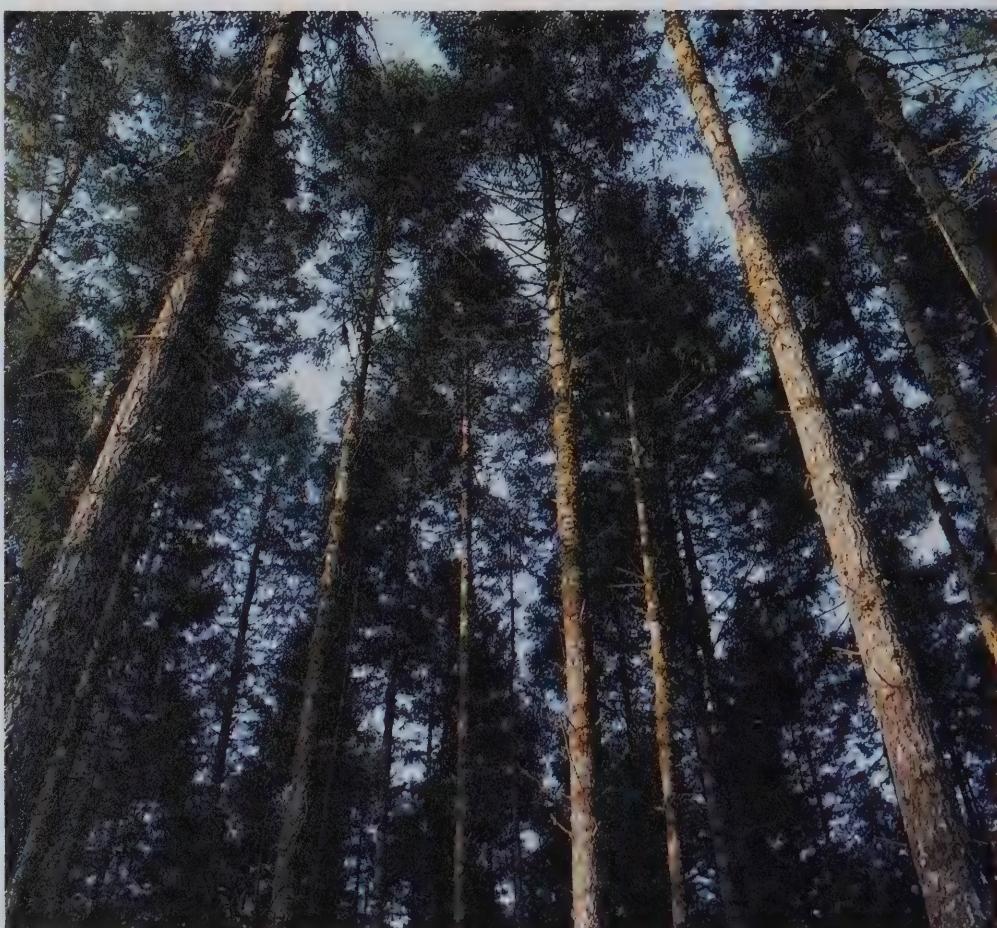
	1977	1976	
<b>Lumber</b>	\$488.7	61%	\$420.3 64%
<b>Panelboards</b>	180.9	23	151.5 23
<b>Other</b>	126.8	16	81.5 13
	\$796.4	100%	\$653.3 100%

\* Figures do not include any amounts for by-products, such as wood chips, transferred to pulp and paper operations.

### Sales of Building Material Products by Market

	1977	1976	1975	1974	1973
<b>U.S.A.</b>	44%	37%	36%	31%	45%
<b>Canada</b>	28	35	38	31	27
<b>U.K. and Continental Europe</b>	15	15	13	22	18
<b>Japan and Orient</b>	8	7	8	8	6
<b>Other</b>	5	6	5	8	4
	100%	100%	100%	100%	100%

Healthy forests less than 200 years old are called "thirty mature" and they present our forest planners with choices. They can either be harvested or left for years to add new growth while also serving as recreation areas.



## Pulp and Paper

Although some fluctuations occurred during the year, newsprint

markets in the U.S. remained firm and production was maintained at high levels. Fine paper sales in Canada also recovered well and the Company's fine paper plant near Vancouver had a successful year. In total, pulp and paper operations contributed \$116.7 million to operating

profits in 1977 compared with \$124.1 million in 1976. See note 2 page 16.

The build-up of huge pulp inventories in Europe, resulting in part from extensive government subsidies of unneeded production in Scandinavia, finally produced a collapse of pulp prices, initially in Europe and then worldwide. Using the extra

margin of a 10% devaluation of the Swedish krona, the Scandinavian producers dropped their prices in order to begin the process of liquidating their large excess inventories.

The adverse effect of the greatly reduced selling prices will continue to be felt for most or all of 1978 and possibly beyond.

### Sales of Pulp and Paper Products\*

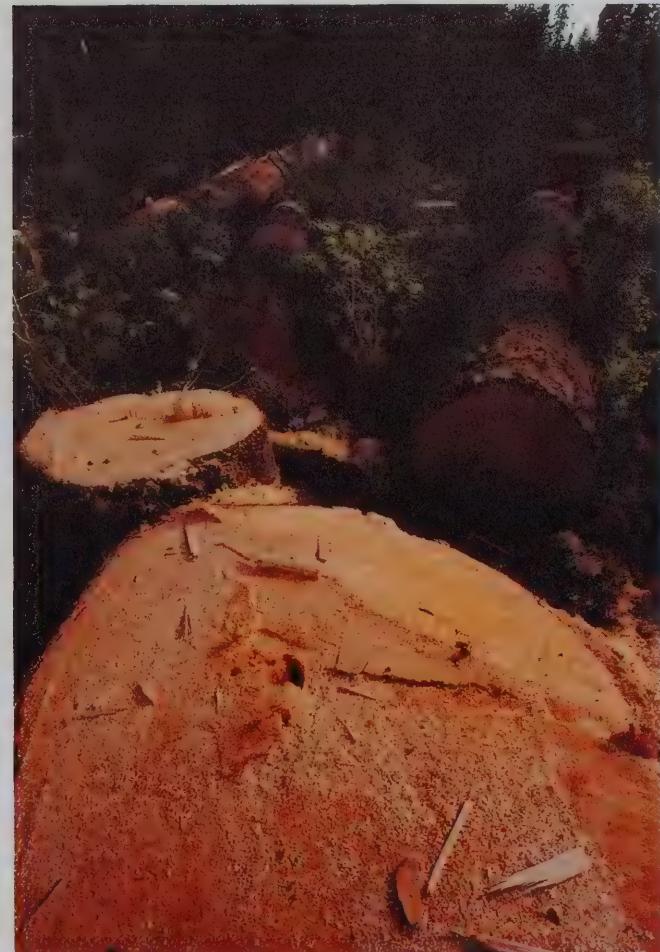
(millions of dollars)

	1977	1976	
<b>Newsprint</b>	\$385.7	67%	\$329.1 62%
<b>Pulp</b>	143.9	15	157.5 30
<b>Fine Paper</b>	22.4	4	21.0 4
<b>Other</b>	24.2	4	24.5 4
<b>Total</b>	<b>\$570.9</b>	<b>100%</b>	<b>\$532.1</b> 100%

\* Before eliminating inter-segment transactions of \$13.7 million (1976 \$19.7 million)

### Sales of Pulp and Paper Products by Market

	1977	1976	1975	1974	1973
<b>U.S.A.</b>		54%	48%	46%	42%
<b>Canada</b>		10	12	11	10
<b>U.K. and Continental Europe</b>		18	21	21	23
<b>Japan and Orient</b>		10	10	10	12
<b>Other</b>		8	9	12	13
		100%	100%	100%	100%



Through these various assessments, logging plans are drawn covering the tracts that are to be cut, logging road networks are laid out, and areas of special value are marked out for protection. All this is done in close co-operation with government foresters who must approve the plans before logging does start. Plans for the harvest of mature or over-mature

timber, and for the new crop to follow, go hand in hand. They are part of a single forest management system. When the plans are approved, the harvest can go ahead to produce the right logs of the right species for the requirements of each of our converting plants. At the same time, no more wood is cut in a given period than is permitted under a sustained yield policy.

## Linerboard and Packaging

The Company's linerboard and packaging operations are integrated to a

significant extent. In order to maximize the benefits of such integration, the two areas were grouped together in early 1977 as another part of the management restructuring which took place at that time.

It was a difficult year for the new group as linerboard prices were unsettled and fluctuated

during the year in most market areas. Although sales from the Company's 27 packaging plants reached record levels in 1977, net profits were affected by troubled economic conditions and intense competition. Linerboard and packaging operations contributed \$18.9 million to operating profits in 1977, compared

with \$20.4 million in 1976. See note 2 page 16.

During the year, 8,300 acres of timberland were acquired by the Company's Alabama subsidiary as part of a long range program which will gradually lessen its dependency on the purchase of logs on the open market.

### Sales of Linerboard and Packaging Products

(millions of dollars)

	1976		1977	
<b>Corrugated Containers</b>	\$218.4	71%	\$192.9	68%
<b>Linerboard</b>	72.0	23	72.2	26
<b>Other</b>	17.1	6	17.7	6
<b>Total</b>	<b>\$277.5</b>	<b>100%</b>	<b>\$282.8</b>	<b>100%</b>

### Production

	1976	1977	Per Cent Increase (Decrease)
<b>Corrugated Containers</b> (M.sq.metres)	812,818	768,095	6%
<b>Linerboard</b> (metric tonnes)	410,538	407,355	1
<b>Other Products</b> (metric tonnes)	19,499	20,303	(4)



When the loggers have finished their work, the foresters return to the site, ready to put the next phase of the cycle into action, the plan for a new crop. It begins with

the investigation of the logged-over land. Any required site preparation will be done, and soil conditions will be noted, as well as elevation, climate conditions and

type of terrain. Chances are, there will be a large number of minute seedlings poking through the ground, offspring of the mature trees that stood before.

Their chances of survival are good because they are growing in soil and climatic conditions that obviously suited their forebears of the same species.

## Transportation

In August, 1977, the Company ordered a second self-propelled, self-dumping log carrier at a cost of \$13.5 million. This vessel will replace an older towed carrier which

now falls short of the Company's needs.

The new carrier, together with the Company's other self-propelled log carrier, the HAIDA MONARCH, will be used to transport logs in a more efficient manner from the Queen Charlotte and West Coast Vancouver Island woodlands divisions to booming areas close to the converting mills. The two carriers will provide the Company with approximately 89% of its total log-barging

requirements through 1985.

The deep-sea fleet of the Company continued to diminish during 1977 with a corresponding drop in losses. At December 31, 1977, the fleet of owned or chartered vessels in operation totalled 577,000 deadweight tons, down from the 1.7 million peak in 1975.

The four vessels built at Flensburg, Germany, and chartered for eight-year terms, are performing well. Designed for carrying forest products, these

ships will nevertheless generate losses for some time because their contracted charter rates exceed their earning capacity at current levels.

During the year the Company disposed of Canadian Gulf Lines Inc., and Swedish Gulf Line, AB. These companies were acquired by the Company in 1973. Their divestiture reflects the Company's policy of focussing on its own internal transportation needs.

### Transportation (millions of long tons)

	1977	1976	1975	1974	1973
<b>Forest products shipped on behalf of MacMillan Bloedel</b>	1.6	1.6	1.2	2.0	1.8
<b>Other cargoes</b>	1.1	1.8	2.8	2.7	1.4
<b>Total freight carried</b>	2.7	3.4	4.0	4.7	3.2
<b>Sub-charter revenues (millions of dollars)</b>	\$12.0	\$34.6	\$49.9	\$43.9	\$2.7



On sites that do not show signs of this natural re-stocking our crews move in with nursery-grown seedlings to plant at a rate of about 430 seedlings per acre. For robust growth they should be evenly spaced and, even on lands that have been naturally re-stocked, we may have to do fill-in planting where spacing is erratic.



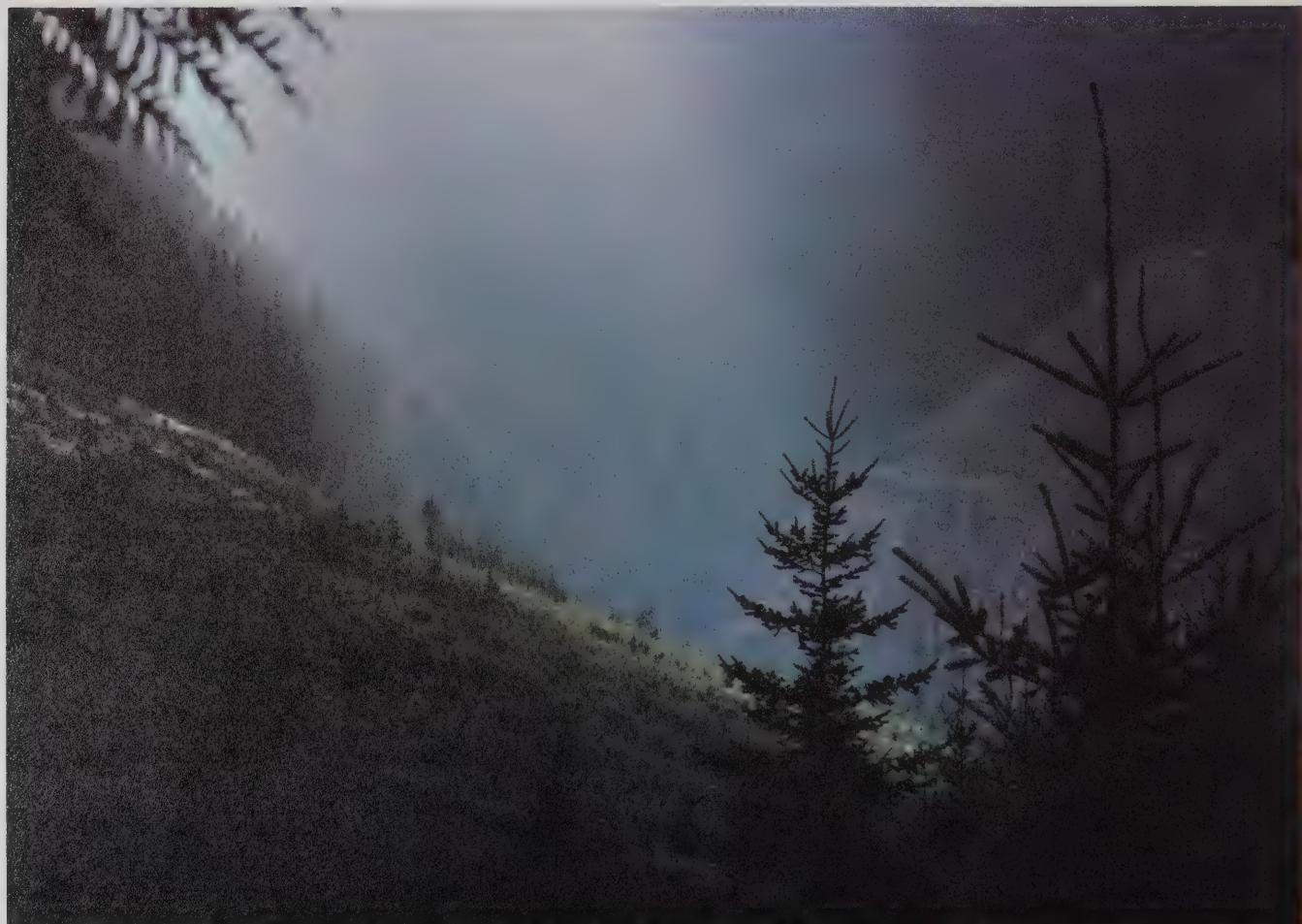
A further \$15.7 million was spent by the Company in 1977 on anti-pollution projects, and other significant investments

were also made in projects which were partially directed at pollution abatement and partially at cost savings and other production efficiencies.

At Powell River, a \$12.2 million primary treatment system is nearing completion and studies on means of reducing fly ash emissions from the power boilers are proceeding.

The new boiler which has been installed at Port Alberni burns bark and other wood debris (hog fuel) instead of the fuel oil burned by the old boilers it replaced. When run at capacity on hog fuel, the new boiler can save up to 250,000 barrels of oil per year. In terms of total energy requirements for its B.C. mills, the Company is now approximately 65% self-sufficient. Elsewhere,

the Company is approximately 75% energy self-sufficient at Pine Hill, Alabama, and will be approximately 60% energy self-sufficient at the end of 1978 at Thunder Bay, Ontario. However, MacMillan Rothesay in Saint John, New Brunswick is only 15% energy self-sufficient, being largely dependent on expensive outside power.



In coastal British Columbia, where MacMillan Bloedel has its most extensive forest management operations, there is a great variety of soils and climatic conditions and trees have definite preferences among growing sites. These have now been carefully classified so that foresters have a detailed guide for their planting plans. Douglas fir, for example, likes well-drained

southerty slopes. It must have sun and will not survive if it has weed or brush competition that puts it in shade. Sitka spruce grows well only in the coastal fog belts and in the Queen Charlotte Islands. Hemlock and cedar like moist locations. On most sites a forester prefers a mixed stand usually of hemlock and Douglas fir, with minor amounts of other species which seed in naturally.

## Human Resources

A year of labour stability contributed significantly to the performance of Company operations. A major accomplishment during the year was the negotiation of 28 labour agreements, covering 14,400 employees, without a strike. Most of the agreements were for two years and granted average annual pay increases of 7% in Canadian operations. In the United States, most of

the Company's contracts were concluded in 1976 for three years and at terms averaging 10% per year. The Company is therefore assured of stability in its industrial relations until mid-1979. In other parts of the world, where inflation rates are higher, contract terms were somewhat higher than in North America. In British Columbia, a settlement was reached with the International Woodworkers of America incorporating an industry-wide portable pension plan that will provide a high degree of security for our work force as well as an incentive to continue careers in the forest industry.

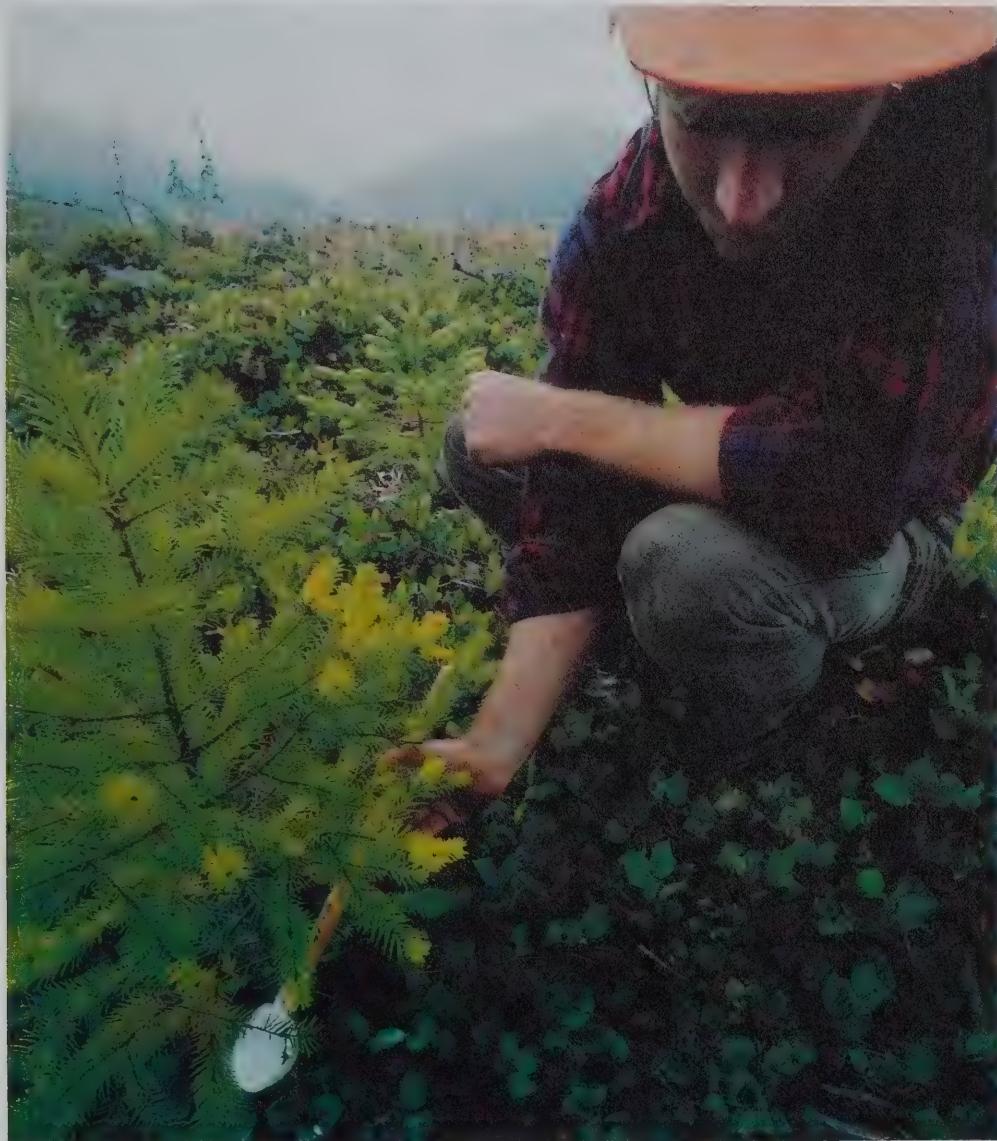
The two major pulp and

paper unions bargained jointly and settled on terms similar to those reached with the I.W.A. All Company operations organized by the Canadian Paperworkers Union and the Pulp, Paper and Woodworkers of Canada ratified the agreements and the terms have been implemented. In 1978, 33 contracts will expire covering approximately 3,000 employees. The major contract negotiation will be at MacMillan Rothesay, in New Brunswick. Settlements reached during the period of wage and price controls in Canada complied with the guidelines of the Anti-Inflation Board. The majority of contracts

negotiated in 1978 will not be subject to Federal wage guidelines.

The Company employed about 23,900 people in 1977 with 18,200 located in Canada, 3,800 in the United States and 1,900 in the United Kingdom, Europe and Asia.

During 1977 the Company established an industrial hygiene service which is available to all divisions. It has been designed to help the Company attain a uniformly high level of health protection for its employees. The new program will assess potential health hazards in Company operations and help minimize occupational health problems.



One way or another, naturally or with the help of man, new forests begin their existence very quickly after the old growth timber is cut. And at that moment a years-long program of protection swings into action. In their most vulnerable period, young plantations are checked for survival. In the first year after planting, and in the third year, if these inspections show unsatisfactory survival or growth, the entire area may be replanted. Written survival records, containing notes on the kinds of native vegetation growing alongside the young trees, growth rates and other information, have become a forestry data bank. They are creating a store of knowledge that will help us improve the survival of seedlings in future plantations.

## Research and Development

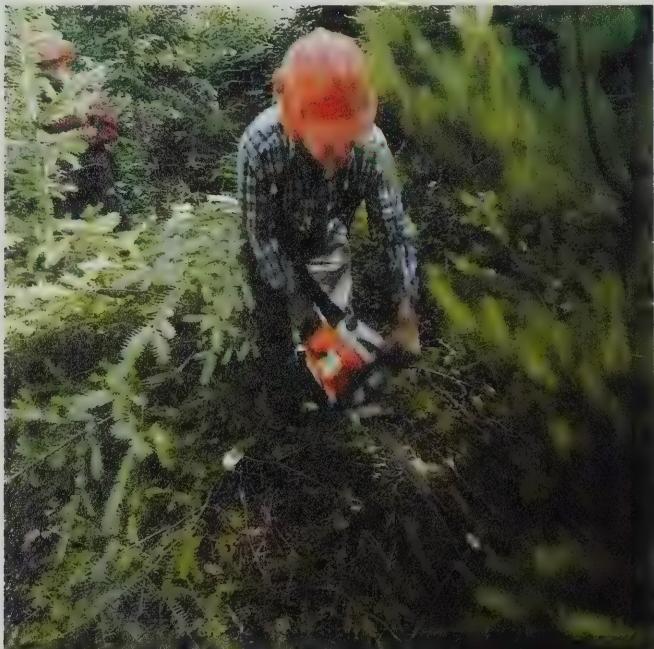
The Company spent \$6.6 million on research and development in 1977. \$5.9 million was funded by the Company and \$.7 million by the Canadian Government. In addition, the Canadian Government offers tax incentives for research and development spending.

Approximately 80% of the research program costs

consisted of projects which are closely related to the manufacture and marketing of the Company's principal products. Emphasis is placed on the most efficient use of wood raw material, reduction of operating costs and the improvement of product quality. The product group managers have been increasingly involved in the formulation of this part of the program. The remaining costs represented longer term studies of apparent opportunities in the development of forest products, some of which fall outside of current manufacturing or

marketing capabilities. In 1977, the printing laboratory at the Company's Vancouver Research Centre was rebuilt. It is now one of the best equipped facilities of its kind in North America, and its staff helps to ensure that the Company's newsprint meets the exacting standards of performance and printability demanded by modern high speed pressrooms. This facility, equipped with web-offset, shallow relief and Di-Litho printing presses, has played an important part in the market introduction of lower basis weight papers and papers containing thermo-

mechanical pulp. Packaging research and development was strengthened in 1977. The program in packaging was principally directed at improved efficiency in the manufacture of corrugated containers, and at specialty containers designed to meet specific needs of customers. New developments in waferboard technology have helped the Company maintain its leadership through the ASPENITE® product lines. The RUFFDEK® panel, which was developed for roof sheathing, continues to be of particular importance in the expansion of ASPENITE® sales in the U.S. market.



Once the forests of young trees survive the dangerous age, protection becomes a matter of providing ideal space and nutrition. "Spacing and cleaning" and "commercial thinning" are housekeeping terms in forestry. When the new forest is about 10 years old, it may need to be thinned out and competitive brush removed so that the healthiest specimens are given the best possible growing conditions, maximum light and the best chance to draw in the soil's nutrition through their roots. Commercial thinning continues this procedure

later when the trees taken out are large enough to provide usable wood. Until it reaches maturity the new forest is watched for signs of disease and protected from fire. It is nurtured like any other cash crop so that it will ultimately provide the same social and economic benefits as the 1977 forest it replaced. Well into the 21st century it will be a monument to the work of MB's experienced and knowledgeable foresters, loggers, engineers, technicians and scientists, people who know the forests and how to protect them.



## Financial Overview

Further improvement in the Company's financial position was achieved in 1977. A higher level of operating earnings, together with the restructuring of some segments of the Company's capital base, resulted in the Company entering 1978 in very sound financial condition and well placed to proceed with its productivity-oriented capital expenditure program. The restructuring of the capital base involved a refinancing of a floating rate, medium term debenture (Series H) with a U.S. \$50 million issue in the Eurodollar market of long term fixed rate debentures (Series J). In addition, the Company issued \$85 million of U.S. denominated term preferred shares in May. This issue provides part of the capital required to finance the Company's large capital expenditure program and, at December 31, 1977, the Company had on hand \$40.0 million in cash or short term investments net of bank loans and cheques in the process of clearing at year's end. To provide the balance of 1978 capital requirements while at the same time ensuring a maintenance of the Company's liquid position, the Company on March 22, 1978 entered into an agreement with underwriters for the sale in the Eurodollar market of U.S. \$50 million principal amount, 9.25% 15 year debentures at a price of 99.25% of their principal amount. Another important change in the Company's financial position was made during 1977. In addition to various non-contractual

lines of credit, short term contractual bank lines of credit aggregating approximately \$175 million were established by the Company some years ago. These contractual credit arrangements have now been replaced by approximately \$110 million of new contractual 7 or 8 year term lines, which may be drawn upon and repaid at any time within the first three years, with various major Canadian and United States banks. In addition to these medium term lines, the Company had non-contractual short term lines aggregating \$121.3 million as at December 31, 1977. The new medium term lines were established in order to provide the Company with increased flexibility in choosing opportune periods to market long term capital issues, or to fund unforeseen capital requirements, and at December 31, 1977, no amounts had been drawn on the new lines. These contractual medium term lines of credit are in addition to the line described in last year's Annual Report which was applied, to the extent of U.S. \$40.0 million in 1977, to refund a medium term floating rate debenture (Series I). This medium term loan was classified as being current in the December 31, 1977 financial statements since the Company had decided to repay it, in accordance with its terms, on March 15, 1978. This decision was occasioned by the Company's excellent liquidity position at year end, the desire to obtain maximum return on these cash resources, and the knowledge that the loan could be re-instated at any time up to March 15, 1980. The Company's capital expenditure program announced in 1977 supplements the basic level of expenditures which the Company must make in order to maintain its plant and equipment and to meet various regulatory and legal requirements. The program includes a series of projects aimed at modernizing the Company's logging, building materials and linerboard operations in British Columbia. Other important projects are the construction of a second thermo-mechanical pulping line at the Powell River newsprint mill, and the acquisition of additional timberland acreage to support the Company's Alabama operations. In total, it is anticipated that the 1978 portion of this long range program will amount to approximately \$125 million. In 1977, capital expenditures totalled \$77.4 million. Construction of main logging roads accounted for \$7.4 million and other large scale projects included the new power boiler at Port Alberni (\$9.8 million expended in 1977), and the new self-propelled self-dumping log carrier (\$2.6 million expended in 1977). During 1977, the Canadian dollar traded at an average of about 6% below the United States dollar, compared with the equivalent average premium of approximately 1% in 1976. Inasmuch as the Company's Canadian based operations gave rise to approximately \$45 million per month of net U.S. dollar receipts in 1977, the increased value of the U.S. dollar (vis-a-vis the Canadian dollar) represented a welcome reversal of earlier years' experiences when artificially high levels of the Canadian dollar seriously eroded the value of the Company's U.S. dollar sales. During the first three months of 1978, the Canadian dollar traded at even lower average levels than in 1977 and the outlook is for only a partial rebound. Accordingly, the Company's net sales realizations for export sales are likely to benefit further in 1978.

In the Financial Overview of the 1976 Annual Report, reference was made to the fact that continuing erosion of the purchasing power of the currency in which financial results are reported can call into question the usefulness of such financial statements. The cumulative effect of seriously high levels of inflation in Canada during the past several years has resulted in significant escalations of the replacement cost of plant and equipment, and, each year, the cost of replenishing finished goods inventories exceeds the previous years' costs of producing them. Thus, profit figures reported on a historic dollar basis now represent only part of the information needed in order to assess the total financial picture of a company in an inflationary environment. In order to provide more portions of that picture a table is shown on page 19 of this Report which reflects major impacts of inflation on plant, equipment and inventory replacement costs. Another disturbing aspect of increasing asset replacement costs has been the added financial burden which arises from the taxing of income figures which are not adjusted for inflation effects. The Canadian government did, however, recognize at least one aspect of this problem in 1977 when it introduced a deduction in arriving at taxable income equal to 3% of the value of inventories as they stood at the beginning of the year. This measure, which acknowledges that illusory inventory profits have been taxed in the past, provided the Company with a reduction of federal income tax of \$2.6 million in 1977.

# MacMillan Bloedel Limited and Subsidiaries

## Net Earnings (Note 1)

	Year Ended December 31		
	1976 Sales (Note 3)	1977	1976 Earnings (Note 4)
<b>Segment earnings (Note 2):</b>			<i>(millions of dollars)</i>
Raw materials	\$ 225.9	\$ 206.6	\$ 11.4
Building materials	796.4	653.3	19.2
Pulp and paper	576.2	532.1	116.7
Linerboard and packaging	307.5	282.8	18.9
Transportation*	110.4	130.0	(10.9)
Other	—	4.9	12.1
	<b>2,016.4</b>	<b>1,809.7</b>	<b>167.4</b>
Less: Inter-segment eliminations	309.1	289.5	(1.3)
	<b>\$1,707.3</b>	<b>\$1,520.2</b>	<b>168.7</b>
Share of profits of other companies in which MacMillan Bloedel has a significant interest (before income taxes)		3.0	2.6
		<b>171.7</b>	<b>119.3</b>
Deduct:			
Unallocated general and administrative expenses net of corporate income (Note 2)	23.8	23.8	
Interest expense	32.3	33.7	
	<b>55.1</b>	<b>57.5</b>	
<b>Earnings before income taxes (see reconciliation below)</b>		<b>\$116.6</b>	<b>\$ 61.8</b>
<b>Dividends and earnings after income taxes:</b>			
Governments –			
Income taxes** (Canadian (Federal and Provincial), United States and various other countries)	53.9	37.5	
Provision for loss in respect of investment in La Cellulose d'Aquitaine S.A.	22.3	—	
Shareholders –			
Share of net earnings belonging to minority shareholders of certain subsidiary companies	2.0	1.5	
Remaining earnings belonging to MacMillan Bloedel shareholders:			
Dividends on Class A Preferred shares	3.7	—	
Dividends on Common shares	8.5	7.4	
Reinvested	26.2	15.4	
	<b>38.6</b>	<b>\$ 61.8</b>	
<b>Reconciliation:</b>			
Earnings before income taxes (as above)		<b>116.6</b>	<b>\$ 61.8</b>
Deduct:			
Current and deferred income taxes (including proportion of income taxes of partly-owned companies)	53.9	37.5	
Provision for loss in respect of investment in La Cellulose d'Aquitaine S.A.	22.3	—	
Minority interests in net earnings of certain subsidiary companies	0.0	1.5	
	<b>78.2</b>	<b>39.0</b>	
<b>Net earnings per audited Consolidated Statement of Earnings (see page 24)</b>		<b>\$ 22.8</b>	

\* Including contributions to earnings from log towing and log barging operations.

\*\* Including deferred income taxes but excluding stumpage, property and sales taxes, and other government taxes amounting to over \$66.7 million (1976 – \$48.8 million) which are reflected in the calculation of the contributions from operations.

### Notes:

1. The financial statements on Pages 16, 17 and 18 have been prepared in simplified form for ease of reading. Formal audited financial statements are set out on Pages 22 through 33.
2. Restatement of inter-segment transactions resulting from the organizational changes cause differences between the above figures and those shown in the 1976 Annual Report. The primary changes were the separation of Raw Materials from Building Materials and the transfer of linerboard operations from Pulp and Paper to Linerboard and Packaging. Unallocated general and administrative expenses net of corporate income has also been restated to conform to 1977 which includes the profit or loss on disposal of property, plant and equipment and investments. Previously certain of these items were included in the segments.
3. Proceeds of sales of wood chips and other residues and of log sales and trades resulting from the need to match log outturn with the requirements of the converting mills are credited against costs of production.
4. Contributions to earnings represent sales of products and services less cost of sales, selling expenses and allocated general and administrative expenses. Contributions to earnings contain some approximations and are based on a policy of pricing substantially all inter-segment transactions at market value and on methods of allocating costs which MacMillan Bloedel believes to be reasonable. MacMillan Bloedel believes that this presentation appropriately reflects the relative contributions of the segments.

## Net Assets

December 31

(1977)

1976

	(millions of dollars)	
<b>Working capital:</b>		
Net cash and short term investments	\$ 40.0	\$ —
Accounts receivable	213.6	173.3
Inventories	287.9	273.2
Prepaid expenses and miscellaneous	17.5	17.1
	<b>569.0</b>	<b>463.6</b>
Deduct:		
Net short term indebtedness	—	39.5
Accounts payable and miscellaneous liabilities	195.1	174.7
Current repayments of long term borrowings	70.9	11.9
	<b>266.0</b>	<b>226.1</b>
<b>Total working capital</b>	<b>293.0</b>	<b>237.5</b>
Add:		
Long term assets:		
Operating plants and equipment (at cost, less depreciation)	553.9	556.6
Timber and logging roads (net of depletion and amortization) and land	116.0	113.9
Investments:		
Significant investments in other companies	56.7	75.1
Other investments	14.1	19.6
Cost of goodwill of businesses acquired less amortization to date	24.0	24.7
Various costs being written off over a number of years	4.2	2.8
	<b>763.9</b>	<b>792.7</b>
<b>Capital employed</b>	<b>1,061.9</b>	<b>1,030.2</b>
Deduct:		
Long term borrowings	309.8	372.8
Deferred income taxes	116.5	111.3
	<b>426.3</b>	<b>484.1</b>
<b>Net assets</b>	<b>\$ 635.6</b>	<b>\$ 546.1</b>
<b>Ownership of net assets:</b>		
Interest of minority shareholders in net assets of certain subsidiary companies	\$ 22.7	\$ 47.3
Balance of net assets belonging to MacMillan Bloedel shareholders		
Class A Preferred	87.9	—
Common	525.0	498.8
	<b>\$ 625.6</b>	<b>\$ 546.1</b>

### Distribution of Common Shares and Common Shareholders as at December 31, 1977

	Common Shares	Common Shareholders
<b>Canada</b>	<b>19,163,748</b>	<b>15,641</b>
<b>United States</b>	<b>2,025,498</b>	<b>895</b>
<b>Other</b>	<b>70,793</b>	<b>173</b>
	<b>21,260,039</b>	<b>16,709</b>
<b>Share Warrants</b>	<b>1,136</b>	<b>—</b>
	<b>21,261,175</b>	<b>—</b>

**MacMillan Bloedel Limited and Subsidiaries**  
**Capital Requirements and Source of Funds**

Year ended  
December 31  
**1977**      **1976**

(millions of dollars)

<b>Short term —</b>		
Increase in current assets	\$104.6	\$ 83.4
Less: Increase in current liabilities	49.1	33.9
<b>Increase in working capital</b>	<b>55.5</b>	<b>49.5</b>
<b>Long term —</b>		
New property, plant and equipment	77.4	63.3
New investments acquired	7.1	16.6
	79.9	
	<b>\$185.0</b>	<b>\$129.4</b>
<b>Funds generated from operations</b>	<b>\$137.1</b>	<b>\$102.4</b>
<b>Deduct:</b>		
Dividends on MacMillan Bloedel Class A Preferred shares	—	—
Dividends paid to MacMillan Bloedel's Common shareholders and minority shareholders of certain subsidiaries	10.1	9.9
	9.9	
	<b>128.3</b>	<b>92.5</b>
<b>Add:</b>		
Proceeds of Class A Preferred share issue less \$25.1 million applied to acquire MacMillan Rothesay preferred shares	62.5	—
Increase (decrease) in long term debt	(63.0)	25.7
Disposal of assets and miscellaneous	17.2	11.2
	36.9	
	<b>\$185.0</b>	<b>\$129.4</b>

(thousands of dollars)

The total expenditures for the year of \$77,353,000 were grouped as follows:

Timber, roads and logging equipment including equipment for road construction	\$29,352
Installation of veneer dryers at Pine Hill, Alabama, pollution control projects and general improvements to operating facilities.	9,745
Power boiler additions at Port Alberni, B.C., pollution control projects and general improvements to operating facilities	24,206
Expansion at Magnolia, Miss. and general improvements to operating facilities	9,419
Self-propelled log carrier and general improvements to operating and head office facilities	4,631
	\$77,353

**Additions to Property, Plant and Equipment  
and Depreciation, Depletion and Amortization**  
(millions of dollars)

■ Additions to Property, Plant and Equipment

Depreciation, Depletion and Amortization

**1973**

**1974**

**1975**

**1976**

**1977**

**71.0**

0    20    40    60    80    100    120    140

## Impact of Inflation

Historical cost and current cost of acquiring new assets  
of equivalent productive capacity (Notes 1 and 2)

	1977	December 31	1976	Historical Basis
	Financial Assets	Financial Liabilities	Replacement Basis	
<i>(millions of dollars)</i>				
Buildings and Equipment				
Cost	\$3,474.5	\$1,177.2	\$3,187.7	\$1,138.3
Accumulated depreciation	1,860.8	623.3	1,687.2	581.7
Net	\$1,613.7	\$ 553.9	\$1,500.5	\$ 556.6
Depreciation for year	\$ 142.1	\$ 55.6	\$ 131.9	\$ 53.1
Logging Roads				
At cost, less amortization	\$ 37.3	\$ 26.1	\$ 33.2	\$ 27.3
Amortization for year	\$ 10.3	\$ 8.7	\$ 10.8	\$ 9.3
<i>(Note 2)</i>				
Year ended December 31 1976				
Funds generated from operations (as shown in the statement of capital requirements and source of funds)				
			\$137.1	\$102.4
Funds required to be set aside to finance replacement of productive capacity if no inflationary cost increases had occurred (historical cost depreciation plus logging road amortization)			64.3	62.4
				40.0
Additional funds required to finance the inflationary increase in the cost of maintaining present productive capacity				
Inventories (Note 3)			13.5	6.4
Buildings, equipment and logging roads (Notes 1 and 4)			88.1	80.3
				86.7
Deficiency which must be made up from future earnings, borrowings or share issues (Note 5)			\$ (28.8)	\$ (46.7)

### Notes:

1. The replacement information is based on the hypothetical assumption that MacMillan Bloedel would replace its productive capacity at December 31, whether or not funds were available to do so or such "instant" replacement were physically possible. Decisions concerning actual replacements will be made with due consideration for economic, regulatory, competitive and technological conditions existing at the time of such determination and could differ materially from the assumptions on which the data is based.
2. The replacement cost of timber and land has not been taken into account. In the case of timber it is not practicable to estimate a replacement cost owing to the complex nature of the agreements relating to the timber supply and in the case of land it is not consumed in the production process.
3. The increased cost of replacing inventories represents the difference between the historical cost and the current cost of goods sold at the date of sale.
4. The increased cost of maintaining the present productive capacity represents the difference between depreciation and amortization determined on a historical cost basis and that determined on the replacement cost of buildings, equipment and logging roads.
5. The deficiency does not provide for any distributions to shareholders or expansion of operating facilities and should be evaluated on the basis that it does not take into account offsetting improvements in operating cash flows which could result from the replacement of productive capacity based on new technology, economies of scale and other relevant factors.

# MacMillan Bloedel Limited and Subsidiaries

## Historical Summary

### Operating Statistics

	1977	1976
<b>Production</b>		
Logs (M. Cu. Ft.)	370,896	389,970
Lumber (MFBM)	1,235,759	1,180,325
Panelboards (M. Sq. Ft. 3/8")	890,433	838,138
Newsprint (Metric Tonnes)	1,074,555	1,064,722
Pulp (Metric Tonnes)	395,225	439,688
Linerboard (Metric Tonnes)	410,538	407,355
Fine paper (Metric Tonnes)	30,748	29,672
Corrugated containers (M. Sq. Metres)	812,818	768,095
<b>Employment</b>		
Wages, salaries and employee benefits (\$000)	\$ 481,076	\$ 443,015
Number of employees at year end	23,865	23,601

### Financial Statistics (\$000)

<b>Earnings Statement</b>			
Sales and other income	\$ 1,714,800	\$ 1,523,344	
Cost of sales and services	\$ 1,443,129	\$ 1,315,926	
Selling, general and administrative expense	\$ 125,779	\$ 114,550	
Interest expense	\$ 32,305	\$ 33,682	
Income taxes	\$ 54,141	\$ 36,074	
Equity in earnings (losses) of partly-owned companies	\$ 3,179	\$ 1,219	
Minority interests in subsidiaries	\$ (2,007)	\$ (1,489)	
Extraordinary items	\$ (22,269)	\$ —	
Net earnings (loss)	\$ 38,349	\$ 22,842	
Net earnings (loss) per Common share —			
Before extraordinary items (dollars)	\$ 2.70	\$ 1.07	
After extraordinary items (dollars)	\$ 1.65	\$ 1.07	
<b>Balance Sheet</b>			
Working capital	\$ 292,950	\$ 237,490	
Property, plant and equipment (net book value)	\$ 669,871	\$ 670,505	
Long term debt	\$ 309,779	\$ 372,755	
Share capital — Preferred	\$ 87,954	\$ —	
— Common	\$ 171,175	\$ 171,175	
Retained earnings	\$ 353,772	\$ 327,634	
<b>Source and Application of Working Capital</b>			
Source — operations	\$ 137,004	\$ 102,360	
— long term financing	\$ 102,685	\$ 41,052	
— other	\$ 17,678	\$ 11,248	
Application — plant and equipment	\$ 67,093	\$ 58,810	
— timber and land	\$ 10,260	\$ 4,515	
— dividends to shareholders of the Company	\$ 12,211	\$ 7,441	
— other	\$ 112,343	\$ 34,397	
Net increase (decrease) in working capital	\$ 55,460	\$ 49,497	
<b>Other</b>			
Current ratio	2.0:1	2.0:1	
Operating cash flow per Common share (dollars)	\$ 6.44	\$ 4.81	
Return on capital employed	5.2%	3.8%	
Return on Common shareholders' equity	6.7%	4.6%	
Common shares outstanding at year end	21,261,175	21,261,175	
Number of Common shareholders at year end	16,709	16,759	
Dividends — per Common share (dollars)	\$.40	\$.35	
— per Preferred share (dollars)	1.09	—	
Shareholders' equity per Common share (dollars)	24.69	23.46	
Price range of Common shares — high (dollars)	24.75	24.00	
— low (dollars)	16.00	17.75	

1975	1974	1973	1972	1971	1970	1969	1968
258,713	326,704	381,319	302,646	338,578	307,920	359,924	310,003
766,542	988,147	1,286,188	1,263,466	1,359,605	1,180,541	1,244,260	1,279,284
670,493	618,298	709,999	708,450	708,912	595,107	668,104	559,720
870,959	1,086,661	1,175,934	1,108,853	1,103,462	992,247	841,748	738,220
322,138	433,342	412,640	447,492	443,893	438,224	504,819	496,013
339,000	339,715	410,447	401,335	359,806	316,878	413,362	217,076
24,557	30,270	28,657	26,229	24,892	25,066	22,073	21,130
709,455	814,613	891,253	653,023	428,109	421,935	427,645	405,922
\$ 352,733	\$ 344,976	\$ 290,776	\$ 231,405	\$ 210,631	\$ 182,261	\$ 176,072	\$ 158,644
23,206	23,847	24,478	23,136	21,036	20,830	20,595	20,023
\$1,297,518	\$1,398,848	\$1,219,242	\$ 966,495	\$ 778,025	\$ 687,838	\$ 678,785	\$ 619,989
\$1,173,995	\$1,171,586	\$ 992,938	\$ 827,789	\$ 673,941	\$ 584,272	\$ 530,336	\$ 488,590
\$ 110,687	\$ 92,833	\$ 66,697	\$ 55,084	\$ 47,261	\$ 45,881	\$ 40,756	\$ 37,608
\$ 31,661	\$ 21,459	\$ 15,086	\$ 17,240	\$ 18,778	\$ 19,193	\$ 14,218	\$ 13,075
\$ (2,764)	\$ 58,041	\$ 66,607	\$ 32,453	\$ 20,138	\$ 21,178	\$ 50,636	\$ 42,442
\$ (3,080)	\$ 19,098	\$ 6,187	\$ 3,943	\$ 1,643	\$ 1,234	\$ 759	\$ 326
\$ 198	\$ (1,729)	\$ (2,349)	\$ (313)	\$ 3,024	\$ (678)	\$ (1,327)	\$ 79
\$ —	\$ —	\$ —	\$ 2,625	\$ 3,367	\$ —	\$ —	\$ —
\$ (18,943)	\$ 72,298	\$ 81,752	\$ 40,184	\$ 25,941	\$ 17,870	\$ 42,271	\$ 38,679
\$ (.89)	\$ 3.41	\$ 3.90	\$ 1.80	\$ 1.08	\$ .85	\$ 2.02	\$ 1.85
\$ (.89)	\$ 3.41	\$ 3.90	\$ 1.92	\$ 1.24	\$ .85	\$ 2.02	\$ 1.85
\$ 187,993	\$ 184,225	\$ 181,519	\$ 162,029	\$ 137,117	\$ 93,706	\$ 107,227	\$ 107,927
\$ 674,564	\$ 659,480	\$ 584,928	\$ 553,633	\$ 542,593	\$ 558,865	\$ 560,739	\$ 502,251
\$ 346,882	\$ 316,297	\$ 251,695	\$ 263,194	\$ 273,772	\$ 257,432	\$ 268,494	\$ 247,428
\$ —	\$ —	\$ —	\$ 624	\$ 2,596	\$ 2,596	\$ 2,596	\$ 2,596
\$ 171,175	\$ 170,154	\$ 169,279	\$ 160,036	\$ 160,036	\$ 160,036	\$ 160,030	\$ 159,497
\$ 312,233	\$ 343,292	\$ 302,892	\$ 247,354	\$ 228,124	\$ 212,699	\$ 215,783	\$ 194,461
\$ 61,941	\$ 131,581	\$ 141,782	\$ 90,934	\$ 67,850	\$ 66,336	\$ 95,536	\$ 80,403
\$ 45,568	\$ 76,084	\$ 3,881	\$ 841	\$ 29,971	\$ 310	\$ 4,741	\$ 7,367
\$ 22,384	\$ 15,162	\$ 15,801	\$ 36,480	\$ 15,575	\$ 12,916	\$ 8,468	\$ 7,934
\$ 76,793	\$ 121,341	\$ 74,781	\$ 35,961	\$ 34,587	\$ 51,908	\$ 48,497	\$ 37,715
\$ 3,875	\$ 11,939	\$ 5,077	\$ 3,669	\$ 3,276	\$ 2,792	\$ 14,835	\$ 9,101
\$ 13,793	\$ 37,125	\$ 26,214	\$ 20,954	\$ 10,516	\$ 20,954	\$ 20,948	\$ 20,934
\$ 31,664	\$ 49,716	\$ 35,902	\$ 42,759	\$ 21,606	\$ 17,429	\$ 25,165	\$ 18,628
\$ 3,768	\$ 2,706	\$ 19,490	\$ 24,912	\$ 43,411	\$ (13,521)	\$ (700)	\$ 9,326
1.9:1	1.8:1	2.1:1	2.3:1	2.1:1	1.7:1	1.9:1	2.2:1
\$ 2.92	\$ 6.20	\$ 6.77	\$ 4.36	\$ 3.25	\$ 3.18	\$ 4.58	\$ 3.86
(.7)%	8.6%	10.9%	6.1%	4.3%	3.7%	6.7%	6.6%
(3.9)%	14.1%	17.3%	9.8%	6.6%	4.8%	11.2%	10.9%
21,261,175	21,220,175	21,192,385	20,876,385	20,876,385	20,876,385	20,876,165	20,856,255
16,654	16,385	17,120	19,125	20,124	21,575	22,282	23,751
\$ .65	\$ 1.75	\$ 1.25	\$ 1.00	\$ .50	\$ 1.00	\$ 1.00	\$ 1.00
\$ —	\$ —	\$ —	\$ .03	\$ .03	\$ .03	\$ .03	\$ .03
22.74	\$ 24.20	\$ 22.28	\$ 19.51	\$ 18.59	\$ 17.85	\$ 18.00	\$ 16.93
25.75	\$ 33.25	\$ 40.00	\$ 28.50	\$ 28.37	\$ 34.00	\$ 39.62	\$ 29.50
\$ 16.75	\$ 20.25	\$ 25.37	\$ 22.62	\$ 19.75	\$ 21.62	\$ 28.00	\$ 17.75

**MacMillan Bloedel Limited**  
**Consolidated Balance Sheet**

<b>Assets</b>		
	1977	1976
<b>Current assets:</b>		(\$000)
Cash	\$ 2,276	\$ 5,650
Short term investments and deposits, at cost which approximates market value	70,719	18,221
Trade and other accounts receivable	213,607	173,296
Inventories (Note 2)	287,945	273,169
Prepaid expenses	4,789	4,450
Deferred income taxes — current items	12,713	12,572
	<b>592,049</b>	<b>487,358</b>
<b>Investments and other assets:</b>		
Partly-owned companies (Note 3)	56,711	75,052
Other investments and assets, at cost	14,117	19,620
	<b>70,828</b>	<b>94,672</b>
<b>Property, plant and equipment:</b>		
Buildings and equipment, at cost (Note 4)	1,177,156	1,138,306
Less: Accumulated depreciation	623,265	581,724
	<b>553,891</b>	<b>556,582</b>
Timber, at cost less accumulated depletion of \$110,514,000 (1976 – \$104,313,000)	74,080	72,809
Logging roads, at cost less amortization	26,085	27,335
Land, at cost	15,815	13,779
	<b>669,871</b>	<b>670,505</b>
<b>Intangible assets (at cost less amortization):</b>		
Unallocated purchase price of shares in subsidiaries	24,001	24,667
Financing expenses and other	4,197	2,858
	<b>28,198</b>	<b>27,525</b>
	<b>\$1,360,946</b>	<b>\$1,280,060</b>

## Liabilities

	December 31	
	1977	1976*
<b>Current liabilities:</b>		(\$000)
Bank indebtedness (Note 5)	\$ 33,068	\$ 39,570
Notes payable	—	23,745
Accounts payable and accrued liabilities	173,036	146,854
Income taxes payable	20,809	27,831
Current portion of long term debt (Note 8)	70,922	11,868
Dividends payable	1,264	—
	<b>299,099</b>	<b>249,868</b>
<b>Long term debt:</b>		
Bonds and debentures (Note 6)	291,528	353,652
Term bank loans (Note 7)	3,451	4,184
Other liabilities (secured)	14,800	14,919
	<b>309,779</b>	<b>372,755</b>
<b>Deferred income taxes</b>	<b>116,476</b>	<b>111,350</b>
<b>Minority interests in subsidiaries (Note 9)</b>	<b>22,691</b>	<b>47,278</b>
	<b>748,045</b>	<b>781,251</b>
<b>Shareholders' Equity</b>		
<b>Share capital:</b>		
Shares without par value (Note 10) –		
Authorized –		
3,400,000 Class A Preferred shares		
35,000,000 Common shares		
Outstanding –		
3,400,000 Class A Preferred shares	87,954	—
21,261,175 Common shares	171,175	171,175
	<b>259,129</b>	<b>171,175</b>
<b>Retained earnings</b>	<b>353,772</b>	<b>327,634</b>
	<b>612,901</b>	<b>498,809</b>
<b>Commitments (Notes 10 and 11)</b>		
<b>Contingent liabilities (Note 12)</b>	<b>\$1,060,946</b>	<b>\$1,280,060</b>

\* Certain 1976 amounts have been reclassified to conform with the presentation in 1977.

**MacMillan Bloedel Limited  
Consolidated Statement of Earnings**

	Year ended December 31	
	1977	1976
<b>Sales and other income:</b>		(\$000)
Sales of products and services (Note 13(a))	\$1,707,260	\$1,520,207
Income from investments	3,678	2,864
Profit on disposal of and provisions for loss with respect to property, plant and equipment and investments and other assets	3,862	273
	1,714,800	1,523,344
<b>Costs and expenses</b> (Notes 13(b), (c), (d) and 14):		
Cost of sales and services	1,443,129	1,315,926
Selling, general and administrative	125,779	114,550
Long term debt interest	29,920	29,482
Other interest	2,385	4,200
	1,601,213	1,464,158
<b>Earnings before income taxes and other undepreciated items</b>	113,587	59,186
<b>Income taxes</b> (Note 13(e)):		
Current	45,684	35,237
Deferred	8,457	837
	54,141	36,074
<b>Earnings before undepreciated items</b>	59,446	23,112
<b>Equity in earnings of partly-owned companies</b>	3,179	1,219
<b>Minority interests in subsidiaries</b>	(2,007)	(1,489)
<b>Earnings before extraordinary item</b>	60,618	22,842
<b>Extraordinary item:</b>		
Provision for loss in respect of investment in La Cellulose d'Aquitaine S.A. (Note 3)	22,269	—
<b>Net earnings</b>	\$ 38,349	\$ 22,842
<b>Net earnings per Common share</b> (Note 13(f)):		
Before extraordinary item	\$ 2.70	\$ 1.07
After extraordinary item	\$ 1.65	\$ 1.07

**MacMillan Bloedel Limited  
Consolidated Statement of Retained Earnings**

	Year ended December 31	
	1977	1976
	(\$000)	
<b>Balance at beginning of year</b>	\$327,634	\$312,233
<b>Net earnings</b>	38,349	22,842
	365,983	335,075
<b>Dividends:</b>		
Class A Preferred shares – \$1.09 per share	3,706	—
Common shares – \$.40 per share (\$.35 per share in 1976)	8,505	7,441
	12,211	7,441
<b>Balance at end of year</b>	\$353,772	\$327,634

**MacMillan Bloedel Limited**  
**Consolidated Statement of Source and**  
**Application of Working Capital**

Year ended December 31  
**1977**      **1976**

<b>Source of working capital:</b>	(\$000)	
Earnings –		
Earnings before extraordinary item	\$ 60,618	\$ 22,842
Depreciation, depletion and amortization of logging roads	70,995	68,580
Deferred income taxes — non-current portion	8,598	7,754
Other components not affecting working capital, net	(3,207)	3,184
	<b>137,004</b>	102,360
Net proceeds of issue of Class A Preferred shares	87,640	—
Net proceeds of long term debt	15,045	41,052
Proceeds of disposals of property, plant and equipment and investments and other assets	17,404	10,739
Other sources	274	509
	<b>257,367</b>	154,660
<b>Application of working capital:</b>		
Property, plant and equipment	77,353	63,325
Equity acquired from minority interests (Note 9)	25,342	—
Investments and other assets	7,097	9,782
Reduction in long term debt	78,026	15,297
Dividends –		
Class A Preferred shares	3,706	—
Common shares	8,505	7,441
Other applications	1,878	9,318
	<b>201,907</b>	105,163
<b>Increase in working capital</b>	<b>55,460</b>	49,497
<b>Working capital at beginning of year</b>	<b>237,490</b>	187,993
<b>Working capital at end of year</b>	<b>\$292,950</b>	\$237,490

The consolidated financial statements have  
been approved by the Board of Directors:

J. Ernest Richardson, Director

C. Calvert Knudsen, Director

## Auditors' Report

To the Shareholders of  
MacMillan Bloedel Limited:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on a report of the auditors who have examined the consolidated financial statements of Koninklijke Nederlandse Papierfabrieken N.V., a partly-owned company accounted for by the equity method.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the source and application of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 20, 1978  
Vancouver, B.C.

PRICE WATERHOUSE & CO.  
Chartered Accountants

## Notes to Consolidated Financial Statements

December 31, 1977

### 1. Accounting policies:

The following accounting policies used by MacMillan Bloedel Limited (the Company) and its consolidated subsidiaries (MacMillan Bloedel) are stated here to assist in understanding the consolidated financial statements.

#### (a) Principles of consolidation –

The accompanying financial statements represent the consolidation of the financial statements of the Company and all its subsidiaries except Embrasca-Empreendimentos Florestais e Agricolas Ltda. and its subsidiaries. The Company owns 51% of the voting shares of Embrasca but the terms of a shareholders' agreement make it inappropriate to consolidate the corporation and its subsidiaries. Instead, the investment in the corporation is accounted for by the equity method (see Note 1(d)).

#### (b) Foreign currency translations –

A number of subsidiaries and partly-owned companies operate in foreign countries. Additionally, substantial volumes of transactions of the Company and certain of its Canadian subsidiaries are denominated in foreign currencies. Transactions of the Company and these Canadian subsidiaries are covered by forward exchange contracts where considered appropriate, in which case, foreign exchange translations are made at such forward exchange contract rates. In all other cases, current assets (except inventories) and current liabilities are translated at the rates of exchange in effect as at the balance sheet dates, other assets (and related depreciation, depletion and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred, and items affecting net earnings (other than depreciation, depletion and amortization) at the average rates for the year. The net effect of the translation of foreign currencies is included in consolidated net earnings.

#### (c) Valuation of inventories –

Inventories of logs, pulp chips, pulpwood and cordwood, and substantially all operating and maintenance supplies are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued principally at the lower of average cost and net realizable value.

#### (d) Accounting for partly-owned companies –

Investments in partly-owned companies including joint ventures, are accounted for by the equity method, where appropriate. Under this method, MacMillan Bloedel's share of the net earnings of the partly-owned companies, net of applicable income taxes, is included in consolidated net earnings. In computing the equity in earnings of foreign partly-owned companies, their financial statements are restated to conform to Canadian accounting principles.

During 1977, MacMillan Bloedel discontinued accounting for its investment in La Cellulose d'Aquitaine S.A. by the equity method (see Note 3).

#### (e) Property, plant and equipment, accumulated depreciation and depletion, and amortization of logging roads –

The costs of maintenance, repairs, minor renewals or replacements and spur logging roads are expensed as incurred. The costs of major replacements, extensions or improvements and main logging roads are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation or depletion are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of earnings.

Depreciation is computed on a straight-line basis on original cost; depletion of timber and amortization of main logging roads are determined on a basis related to log production. Amortization of main logging roads is deducted from the asset account.

**1. Accounting policy** (continued)

Rates of depreciation by principal asset classification are as follows —

Buildings	2½% and 5%
Pulp and paper mill machinery and equipment	5%
Logging machinery and equipment	15%-20%
Other manufacturing machinery and equipment	7½%-15%
Ship, tugs, barges and scows	7½%-10%

(f) *Intangible assets* —

The unallocated purchase price of shares in subsidiaries, which represents the excess of the purchase price over the values attributed to the underlying net tangible assets at dates of acquisition, is amortized on a straight-line basis over forty years.

Amortization of financing expenses relating to bonds and debentures is computed on a basis related to the principal amounts outstanding. Other intangible assets are being amortized at appropriate straight-line rates.

(g) *Income taxes* —

Income taxes are recorded on a tax allocation basis. Accordingly, deferred income tax provisions (or reductions) are recorded in the consolidated statement of earnings in appropriate amounts to reflect the income tax effects of timing differences arising each year. In MacMillan Bloedel's case, such differences result principally from depreciation being claimed for income tax purposes in amounts differing from depreciation recorded for accounting purposes.

(h) *Voyage accounting* —

The completed voyage method is used in accounting for ocean voyages. Under this method, revenues and expenses relating to voyages in progress are deferred until the completion of a voyage, at which time, they are transferred to the statement of earnings. Where, however, aggregate net losses are expected to result from voyages in progress as of the end of an accounting period, provision is made for such losses. MacMillan Bloedel also provides currently for net losses expected to be incurred on voyages not started but for which the rates and other terms of charter hire expense and freight revenue are contracted by the end of an accounting period.

Subcharter revenue and charter hire expense are included in earnings as the subcharter revenue is earned and the expense is incurred. Where, however, it is determined that aggregate charter hire expenses on vessels subchartered prior to the end of an accounting period will exceed subcharter revenues over the period of the subcharter, provision is made for such losses.

(i) *Pension costs* —

Normal pension cost accruals are made on the basis of annual reviews of the position of MacMillan Bloedel's various pension plans and other retirement arrangements. Additionally, pension plan surpluses and deficits derived from periodic actuarial estimates are amortized to earnings over appropriate periods.

(j) *Research, development and pre-operating expenses* —

All such expenses are charged against consolidated net earnings as incurred.

**2. Inventories**

	December 31 1977	(\$000)	December 31 1976*	(\$000)
Logs, pulp chips, pulpwood and cordwood	\$ 85,007	\$ 85,079		
Operating and maintenance supplies	33,086	29,277		
Lumber, plywood and other building materials	96,032	96,221		
Pulp and paper products	41,563	33,485		
Linerboard and packaging products	32,257	29,107		
	<b>Cost</b>	<b>Cost</b>		
	<b>\$273,169</b>	<b>\$273,169</b>		

\* Reclassified to group linerboard and packaging products together.

**3. Partly-owned companies**

	December 31 1977	(\$000)	December 31 1976	(\$000)
Investments in shares, at cost less allowance for possible loss of \$18,184,000 (1976 - \$1,000,000)	\$35,344	\$50,645		
Accumulated equity in earnings since acquisition, less dividends received and allowance for possible loss of \$5,849,000 (1976 - nil)	19,894	22,614		
Advances	1,473	1,793		
	<b>Cost</b>	<b>Cost</b>		
	<b>\$75,052</b>	<b>\$75,052</b>		

The principal investments are in Koninklijke Nederlandse Papierfabrieken N.V. and subsidiaries and Embrasca-Empreendimentos Florestais e Agricolas Ltda. and subsidiaries.

During 1977, MacMillan Bloedel made a provision for loss of \$22,269,000 in respect of the full amount of its investment in La Cellulose d'Aquitaine S.A. and has discontinued accounting for this investment by the equity method.

#### 5. Buildings and equipment:

	Cost	Accumulated depreciation	Net
<b>December 31, 1977 —</b>			
Pulp and paper mills	\$ 608,901	533,468	\$ 74,933
Linerboard and packaging plants	175,302	75,028	96,504
Sawmills, plywood mills and other building materials plants	201,600	131,269	69,640
Logging buildings and equipment	132,035	70,541	61,394
Other buildings and equipment	59,570	23,250	36,620
	<b>51,177,185</b>	<b>5823,285</b>	<b>\$553,891</b>
<b>December 31, 1976* —</b>			
Pulp and paper mills	\$ 587,528	\$315,397	\$272,131
Linerboard and packaging plants	167,781	71,764	96,017
Sawmills, plywood mills and other building materials plants	195,638	102,039	93,599
Logging buildings and equipment	125,626	69,952	55,674
Other buildings and equipment	61,733	22,572	39,161
	<b>\$1,138,306</b>	<b>\$581,724</b>	<b>\$556,582</b>

MacMillan Bloedel's principal plant facilities in Alabama, a packaging plant in Mississippi and its head office building in British Columbia are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Consequently, the cost of these leased assets, aggregating \$93,681,000 (1976 — \$92,645,000), and related depreciation and long term debt are included in the accompanying financial statements.

\* Certain 1976 amounts have been reclassified to conform with the presentation in 1977.

#### 6. Short term borrowings and short term lines of credit:

As at December 31, 1977, MacMillan Bloedel had non-contractual short term bank lines of credit aggregating \$121,289,000 (1976 — \$195,033,000). Of these lines \$7,373,000 was used for bank loans outstanding at that date. In addition to these short term lines, the Company has negotiated contractual long term bank lines of credit aggregating \$153,700,000 which are referred to in Note 7.

Average outstanding short term borrowings (bank loans and notes payable) for 1977 amounted to \$29,000,000 (1976 — \$42,000,000) and the average interest rate on such borrowings was 8.13% (1976 — 9.59%) for the year. Maximum month-end short term borrowings in 1977 amounted to \$61,200,000 (1976 — \$63,300,000).

#### 7. Bonds and debentures:

	December 31	
	1977	1976
	(\$000)	
<b>MacMillan Bloedel Limited —</b>		
4.95%* sinking fund debentures, Series A, maturing October 1, 1990 (U.S. \$27,300,000)	\$ 29,328	\$ 31,584
6½% sinking fund debentures, Series C, maturing July 15, 1992 (U.S. \$21,693,000)	23,377	23,773
7½% debentures, Series D, maturing May 15, 1978	10,000	10,000
8½% sinking fund debentures, Series E, maturing May 15, 1991	19,043	19,268
8¾% sinking fund debentures, Series F, maturing July 1, 1994 (U.S. \$75,000,000)	72,399	72,399
11¼% sinking fund debentures, Series G, maturing January 15, 1995	40,000	40,000
Series H debentures, maturing January 3, 1984 (see below)	—	50,000
Series I debentures, maturing in installments to June 15, 1983 (Note 7)	—	39,252
9% sinking fund debentures, Series J, maturing February 1, 1992 (U.S. \$50,000,000)	50,988	—
8½% subordinated convertible debentures, maturing December 20, 1984 (U.S. \$2,098,000) (Note 10)	2,075	2,075
	<b>473,811</b>	<b>288,351</b>

#### MacMillan Canada Inc. —

4¾% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$45,620,000)	49,041	52,444
<b>MacMillan Plywood Limited —</b>		
6% first mortgage and collateral sinking fund bonds, Series A, maturing March 1, 1985 (U.S. \$6,700,000)	7,202	8,095
6¾% general mortgage sinking fund bonds, Series A, maturing October 1, 1985	5,230	6,730
7½% debenture certificate, due December 31, 1979	23	23
	<b>14,848</b>	

## 6. Bonds and debentures: (continued)

	December 31 1977	1976 (\$000)
<b>MacMillan Bloedel Industries Limited —</b>		
Sinking fund debentures —		
5½% twenty-year debentures, Series A, maturing May 15, 1978	\$ 2,014	\$ 3,059
4½% twenty-year debentures, Series B, maturing May 15, 1978 (U.S. \$700,000)	674	1,299
	<b>2,688</b>	<b>4,358</b>
<b>Lee Timber Products Inc.***—</b>		
6% industrial development revenue bonds, maturing September 1, 1979 (U.S. \$1,000,000)	971	971
<b>Burnaby Paperboard Ltd. —</b>		
5¾% first mortgage and collateral trust sinking fund bonds, maturing May 15, 1978	1,035	1,049
<b>MacMillan Bloedel Containers Inc.****—</b>		
4.90% — 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. \$900,000)	958	—
<b>Kingsway Lumber Co. Limited —</b>		
6¾% sinking fund debentures —		
Series A, maturing December 15, 1982	312	349
Series B, maturing February 1, 1985	344	357
	<b>56</b>	<b>706</b>
Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 8)	<b>313,014</b>	<b>362,727</b>
	<b>23,486</b>	<b>9,075</b>
	<b>291,532</b>	<b>\$353,652</b>

\* Extra interest of ½ of 1% per annum has been paid on these debentures from January 1, 1975 consequent upon amendment of the relevant trust indenture.

\*\* These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 4).

\*\*\* These industrial revenue bonds are direct obligations of The Industrial Development Board of the City of Opelika, Alabama (see Note 4).

\*\*\*\* These general obligation industrial bonds are direct obligations of The Supervisors' District Number Two of Pike County, Mississippi (see Note 4).

The long term portion of bonds and debentures repayable in U.S. currency (aggregating \$221,913,000 at December 31, 1977) has been translated into Canadian dollars at historical exchange rates (Note 1(b)). On the basis of the exchange rate in effect at December 31, 1977 there were unrealized losses on foreign exchange of approximately \$15,381,000 which have not been recognized in the accompanying consolidated financial statements. Having regard to the number of years to maturity of the long term portion of bonds and debentures, the exchange ratio between the United States and Canadian currency will be subject to many fluctuations during that period.

The majority of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the bonds, debentures and other liabilities outstanding. The trust indentures securing the Company's debentures contain provisions limiting the amount of indebtedness which the Company can incur and limiting the amount available for payment of dividends. At December 31, 1977, under the most restrictive of these provisions approximately \$145,000,000 was available for payment of dividends. The formula by which the amount available for distribution is computed provides that the amount so shown would have to be reduced by any redemption of shares (see Note 10 for details of the retractable Class A Preferred shares).

On February 9, 1977, the Company issued U.S. \$50,000,000 of 9% debentures, Series J, maturing February 1, 1992. The net proceeds were immediately used in the redemption of the Series H debentures.

## 7. Term bank loans:

At December 31, 1977, MacMillan Bloedel had contractual term bank lines of credit aggregating \$153,700,000 (1976 — \$4,200,000). The lines of credit generally provide for unsecured loans thereunder to be on a revolving basis during the first three years of the credit followed by a four or five year pay out period.

On March 15, 1977, the Company borrowed U.S. \$40,000,000 under one of these lines of credit, the proceeds of which were used to retire the U.S. \$40,000,000 Series I debentures. At December 31, 1977 this amount is included with current portion of long term debt in the consolidated balance sheet as the Company intends to retire this obligation in the near future.

Interest rates on loans under the lines of credit are generally based on the London interbank offering rate of the lending bank.

### — Payments on long term debt —

Payments on long term debt required for each of the five years after December 31, 1977 are as follows —

	Bonds and debentures	Term bank loans	Other liabilities	Total
1978 (after adjustment to current rate of exchange —				
Notes 1(b) and 6)	823,601	1,451	51,408	870,020
1979	17,019	736	1,441	19,196
1980	19,212	736	806	17,754
1981	18,384	736	491	19,611
1982	10,000	1,421	180	20,184

\* Net of purchases and cancellation of bonds and debentures up to December 31, 1977.

### — Minority interests in subsidiary —

	December 31	
	1977	1976
		(\$000)
Common shareholders	\$22,691	\$22,037
Preference shareholders	—	25,241
	<b>\$22,691</b>	<b>\$47,278</b>

During 1977, the Company purchased the \$25,000,000 of MacMillan Rothesay Limited 6.75% cumulative redeemable preference shares held by minority interests.

### — Share capital —

By special resolution of the shareholders passed on April 26, 1977, the Company's authorized capital was increased from 25,000,000 Ordinary shares without par value to 35,000,000 Ordinary shares and 3,400,000 Class A Preferred shares without par value. Further, the designation of the Ordinary shares was changed to Common shares.

On May 2, 1977 the Company issued 3,400,000 Class A Preferred shares at U.S. \$25 per share for a total cash consideration of U.S. \$85,000,000.

The Class A Preferred shares are redeemable, at the option of the Company, after May 1, 1982 at U.S. \$25 per share plus all accrued and unpaid dividends to the redemption date; the shares are retractable, at the option of the holder, on May 1, 1987 at U.S. \$25 per share plus all accrued and unpaid dividends to that date. The shares carry the right to cumulative preferential dividends of 5 1/2% per annum to May 1, 1982 and thereafter at a rate of 1 1/2% above one half of the average U.S. prime rate (as defined).

The Company has reserved 69,933 Common shares for possible issue in exchange for the U.S. \$2,098,000 8 1/2% subordinated convertible debentures maturing December 20, 1984. These debentures are convertible at any time prior to December 21, 1979 at the option of the holders into Common shares of the Company at the rate of 33 1/3 Common shares for each U.S. \$1,000 face value of debentures.

Under the Company's stock option plan, options for Common shares may be granted to key employees, exercisable on or before dates fixed by the Board of Directors, at share prices equal to at least 90% of the closing price on the Vancouver Stock Exchange on the last business day before the options were granted. Outstanding options at December 31, 1977 were as follows —

Number of shares	Option price	Expiry date
73,700 shares	\$20.30	October 7, 1979
50,000 shares	\$19.69	August 31, 1986
5,000 shares (granted in 1977)	\$20.14	January 27, 1987

No options were exercised during 1977. Options for 21,900 shares at \$20.30 per share were cancelled during the year.

### — Commitments:

In addition to commitments for capital expenditures and future supply of operating services and materials, MacMillan Bloedel is committed in respect of the following —

(a) Commitments, under ship charters and rentals under non-cancellable leases having an initial term of more than one year (reduced by subcharter and sublease rentals of approximately \$770,000) as follows —

## 11. Commitments: (continued)

	Ship charters	Leases	Total
	(\$000)		
1978	\$ 44,050	\$ 4,649	\$ 48,699
1979	36,358	3,157	39,515
1980	27,134	2,137	29,271
1981	27,630	1,736	29,366
1982	27,955	1,619	29,574
1983-87	53,081	4,661	57,742
1988-92	—	2,929	2,929
1993-97	—	2,771	2,771
Subsequent to 1997	—	6,229	6,229
	\$216,208	\$20,088	\$246,696

In the majority of cases, the ship charter commitments include components to cover the costs of manning and other operating expenses (but not fuel), as well as bare boat and owners' profit components. Accordingly, in the event of lay up of certain of the ships under charter, the commitments could be reduced by an estimated \$42,077,000.

Substantially all of the ship charter commitments are payable in foreign currencies including a major portion in Deutsche Marks and have been translated into Canadian dollars at exchange rates prevailing at December 31, 1977 or, where covered by forward exchange contracts, at the forward contract rates.

As at December 31, 1977 many of the ship charters are at rates above those prevailing in the spot charter market at that date.

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2034); payments of approximately \$3,400,000 are required in each of the next five years and in diminishing amounts thereafter.

## 12. Contingent liabilities:

MacMillan Bloedel is a party to a number of lawsuits incidental to its business and is also a party to a number of governmental administrative proceedings and investigations relating principally to combines, anti-trust and environmental matters. Certain of the administrative proceedings have triggered suits in the United States, brought as class actions seeking treble damages, against the linerboard and packaging industry, including certain of the Company's subsidiaries. It is not possible at the present time to estimate the ultimate legal or financial liability, if any, of MacMillan Bloedel in respect of such litigations, proceedings and investigations. The General Counsel of the Company believes that any ultimate liability will not be material in relation to the Company's consolidated financial position.

## 13. Earnings statement supplementary information:

(a) MacMillan Bloedel quotes and contracts the majority of its sales on a C.I.F. (cost, insurance and freight to destination) basis. Accordingly, in such circumstances sales of products and services include freight, cartage and insurance components, as well as cost and profit components, and cost of sales and services includes the related costs of those services. Sales include the sales of products purchased from other manufacturers on which the margin of gross profit realized is less than that realized on the sales of its own manufactured products.

(b) Costs and expenses include the following —

	Year ended December 31	
	1977	1976
	(\$000)	
Depreciation	\$55,603	\$ 53,124
Depletion	6,712	6,162
Amortization of main logging roads	8,680	9,294
	\$70,995	\$ 68,580
Pension expense	\$26,944	\$ 28,522
Rental expense on leases of more than one month, and time charter* hire including \$25,680,000 (1976 - \$43,022,000) being estimated manning and other operating costs	\$65,041	\$100,854
Less: Sublease and subcharter revenue, included with sales and other income in the statement of earnings	12,305	34,903
	\$52,736	\$ 65,951

\* Time charters represent all charters except single voyage spot charters.

(c) Cost of sales and services for the year ended December 31, 1977 includes aggregate provisions of \$1,200,000 (1976 - \$3,800,000) in respect of estimated losses on voyages and subcharters which will not be completed until periods subsequent to that date (see Note 1(h)).

(d) Selling, general and administrative expenses includes direct remuneration paid to the directors and senior officers of the Company aggregating \$2,630,000 (1976 - \$2,111,000).

(e) In both 1977 and 1976, the effective income tax rates differ from the Canadian federal income tax rate of 46%. The principal factors causing these different effective income tax rates are as follows —

**13. Earnings statement supplementary information: (continued)**

	Year ended December 31	
	1977	1976
Canadian federal income tax rate	46.0%	46.0%
Canadian manufacturing and processing allowance	(3.0)	(3.2)
Provincial income and logging taxes, and state taxes and withholding tax provisions, net of applicable federal abatements	8.3	13.9
Operating and capital losses for which potential tax reductions were not recorded	2.2	2.2
Investment tax credits	(1.9)	(1.8)
3% Canadian inventory allowance	(2.3)	—
Effect of foreign exchange translation adjustments	(1.5)	2.7
Other items	(0.1)	1.1
Effective income tax rate	47.7%	60.9%

Certain subsidiary companies have losses aggregating \$13,655,000 available for carry forward to reduce income taxes which may become payable in future years. The potential tax benefit of these losses has not been reflected in these financial statements.

**(f) Net earnings per Common share —**

Net earnings per Common share is computed by dividing the net earnings, after providing for dividends on the Class A Preferred shares, by the weighted average number of shares outstanding during the year. The provision for dividends on the Class A Preferred shares is made on a time elapsed basis rather than on a declared basis.

Koninklijke Nederlandse Papierfabrieken N.V. has debentures outstanding which are convertible at the holders' option into common shares. Had all of the outstanding debentures been converted into common shares of that company at the beginning of the year, MacMillan Bloedel's equity in earnings of partly-owned companies for the year ended December 31, 1977 would have been reduced by \$4,400,000 (\$.21 per share) comprising \$500,000 (\$.03 per share) in respect of a reduction in equity in earnings for 1977 and \$3,900,000 (\$.18 per share) in respect of the cumulative reduction in equity in undistributed earnings of prior years.

The Company has U.S. \$2,098,000 of convertible debentures outstanding and unexercised options for 128,700 Common shares at December 31, 1977 (Note 10). Neither the conversion of debentures nor the exercise of stock options would have had a dilutive effect on earnings per share had these actions taken place during 1977.

**14. Pension plans:**

MacMillan Bloedel has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years of continuous service. In addition, the Company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings. The total of the pension fund assets and the balance sheet provisions for pension liabilities were estimated to exceed the value of accrued pension benefits under all plans and the liability for unfunded agreements by approximately \$2,500,000 as at December 31, 1977 (1976 – pension liabilities estimated to exceed fund assets and provisions by \$1,600,000).

**15. Anti-inflation Program.**

To the best of its knowledge, MacMillan Bloedel has complied with the controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act effective October 14, 1975.

**16. Subsidiary companies:**

Active	Inactive (including holding companies not carrying on active operations)
<b>Canada</b>	
Canadian Transport (Europe) Limited	Alpulp Wood Products Ltd.
Forest Industries Flying Tankers Limited	Aspenite Waferboard Building
Forest Transport Limited	Materials Incorporated
Kingcome Navigation Company Limited	Burnaby Paperboard Ltd.
Kingsway Lumber Co. Limited	Canadian White Pine Co. Limited
R. Laidlaw Lumber Co. Limited	Canadian Transport Limited
MacMillan Bloedel (Alberni) Limited	Harmac Ltd.
MacMillan Bloedel Building Limited	Island Paper Mills Limited
MacMillan Bloedel Building Materials (B.C.) Limited	MacMillan Bloedel (Alberta) Limited
MacMillan Bloedel Building Materials Limited	MacMillan Bloedel Enterprises Ltd.
MacMillan Bloedel Building Materials (Supply) Ltd.	MacMillan Bloedel Export Sales Ltd.
MacMillan Bloedel Industries Limited	MacMillan Bloedel (Manitoba) Limited
MacMillan Bloedel Packaging Limited	MacMillan Bloedel (Ontario) Limited
MacMillan Bloedel Properties Limited	Powell River-Alberni Sales Limited
MacMillan Bloedel (Quebec) Limited	Powell River Co. Ltd.
MacMillan Bloedel Research Limited	Rothesay Paper Holdings Ltd.
	Rothesay Paper Limited
	Rothesay Shipping Ltd.

## 16. Subsidiary companies: (continued)

### Active

### Inactive (including holding companies not carrying on active operations)

#### Canada

MacMillan Bloedel (Saskatchewan) Limited  
 MacMillan Jardine (North America) Ltd.  
 MacMillan Rothesay Limited  
 Martin Paper Bags Ltd.  
 Multiply Plywoods Limited  
 National Paper Box Limited  
 Vancouver Island Stevedoring Co. Ltd.  
 Vancouver Marine Engines Ltd.  
 West Coast Transport Company Limited

#### United States

Atlantic Forest Products Inc.  
 Canadian Transport (N.Y.) Inc.  
 Fibres International, Inc.  
 Habitant Sales Corporation  
 Habitant Shops, Inc.  
 Lee Timber Products, Inc.  
 MacMillan Bloedel (Alabama) Inc.  
 MacMillan Bloedel Containers Inc.\*  
 MacMillan Bloedel Enterprises, Inc.  
 MacMillan Bloedel Export Inc.  
 MacMillan Bloedel Inc.  
 MacMillan Bloedel (New York) Inc.  
 MacMillan Bloedel Particleboard Inc.  
 MacMillan Bloedel Sales Inc.  
 Robert S. Osgood, Inc.  
 Powell River-Alberni Sales Corporation  
 Star Terminal Company, Incorporated  
 States Navigation Corporation  
 Urban Fiber Industries, Incorporated

AFP Corporation  
 MacMillan Bloedel Investment Inc.  
 MacMillan Bloedel Radio System, Inc.  
 MB Subsidiary 74 Inc.  
 MacMillan Bloedel Timberlands Inc.  
 MacMillan Bloedel (USA) Inc.  
 WW1 Corporation

#### United Kingdom

Canadian Transport (Terminals) Limited  
 MacMillan Bloedel Containers Limited  
 MacMillan Bloedel Meyer Limited  
 MacMillan Bloedel Meyer (Terminals) Limited  
 MacMillan Bloedel Panelboard Agencies  
     Limited  
 MacMillan Bloedel Pulp and Paper Sales  
     Limited  
 Scotpack Limited

Hygrade Corrugated Cases Limited

#### Other

Altair Limited\*\*  
 Canadian Transport Company Pty. Limited  
 Comfloresta-Companhia Catarinense de  
     Empreendimentos Florestais\*\*\*  
 Embrasca-Empreendimentos Florestais e  
     Agricolas Ltda.\*\*\*  
 Fortrans N.V.  
 Island Risk Management Limited  
 MacMillan Bloedel Europe B.V.  
 MacMillan Bloedel Pty. Limited  
 MacMillan Jardine (Japan) Limited  
 MacMillan Jardine Limited  
 MacMillan Jardine (Malaysia) Sendirian Berhad  
 MacMillan Jardine (South East Asia) Limited  
 Oceanspan Carriers Limited  
 P.T. Transcamp Indonesia

Canadian Maas River Investment N.V.  
 Canadian Transport (Bermuda) Limited  
 Canadian Transport (Orient) Limited  
 Comfloresta-Parana Empreendimentos  
     Florestais S.A.\*\*\*  
 Comfloresta-Serrana Empreendimentos  
     Florestais S.A.\*\*\*  
 Companhia-Colonizadora do Ariry\*\*\*  
 MacMillan Bloedel European  
     Holdings B.V.  
 MacMillan Bloedel Holdings S.A.  
 MacMillan Jardine International Limited  
 Transcamp Limited

\* Merged into MacMillan Bloedel Inc. after the close of business on December 31, 1977.

\*\* November 30 year end for fiscal purposes.

\*\*\* These companies are accounted for by the equity method.

# MacMillan Bloedel Limited

Head Office: 1075 West Georgia Street, Vancouver, B.C. V6E 3R9

## Operations, Sales Offices and Distribution Centres

### Widest Divisions, B.C.

Cameron  
Chemainus  
Cous  
Estevan  
Eve River  
Franklin River  
Hecate  
Kelsey Bay  
Kennedy Lake  
Menzies Bay  
Northwest Bay  
Port McNeill  
Queen Charlotte  
Sarita  
Shawnigan  
Squamish  
Stillwater  
Taylor

### Wood Preserving and Pole Manufacturing

New Westminster, B.C.

### Lumber

Chemainus, B.C.  
Harmac, B.C.  
New Westminster, B.C.  
Opelika, Ala.  
Pine Hill, Ala.  
Port Alberni, B.C.  
Powell River, B.C.  
Vancouver, B.C.

### Plywood

Nipigon, Ont.  
Pine Hill, Ala.  
Port Alberni, B.C.  
Vancouver, B.C.

### ASPERITE Panels

Hudson Bay, Sask.  
Thunder Bay, Ont.

\*Registered Trade Mark

### Panelboard

Pine Hill, Ala.  
Vancouver, B.C.

### Wood Products Specialties

New Westminster, B.C.

Lumber Specialties

Port Alberni, B.C.

Shingles

Lumber Specialties

Toronto, Ont.

Mouldings

Roof Trusses

Vancouver, B.C.

Panelboard Specialties

Pres-to-logs

### United States

Edenton, N.C.

Wood Fencing

Lumber Specialties

Alpena, Mich.

Gladstone, Mich.

Stephenson, Mich.

Wood Fencing

### Newsprint and Groundwood Papers

Port Alberni, B.C.  
Powell River, B.C.  
Saint John, N.B.

### Pulp

Harmac, B.C.  
Bleached Sulphate  
Semi-bleached Sulphate  
Port Alberni, B.C.  
Unbleached Sulphate  
Powell River, B.C.  
Semi-bleached Sulphate

### Other Paper and Board Products

New Westminster, B.C.  
Fine Papers  
Pine Hill, Ala.  
Linerboard  
Port Alberni, B.C.  
Linerboard  
Bellevue, Wash.  
Secondary Fibres

### Corrugated Containers

Edmonton, Alta.  
Calgary, Alta.  
New Westminster, B.C.

### United Kingdom

Carnoustie, Angus  
Hatfield, Herts.  
Irvine, Ayr.  
Nelson, Lancs.  
Southall, Hanwell  
West Auckland, Co. Durham  
Weston-super-Mare, Avon

### United States

Elmira, N.Y.  
Jersey City, N.J.  
Union, N.J.  
Odenton, Md.  
Cleveland, Ohio  
Centerville, Ohio  
Marion, Ind.  
Chicago, Ill.  
Magnolia, Miss.  
Little Rock, Ark.  
Houston, Tex.  
Carson City, Calif.

### Cartons

Burnaby, B.C.  
Folding and Rigid Cartons  
Milk Cartons  
Specialty Cartons

### Bags and Specialties

Burnaby, B.C.  
Kraft Paper Bags  
Notion and Millinery Bags  
Wrapping Papers

### Pineapple Products

High Wycombe, England

### Sales Offices and Distribution Centres

#### Building Materials

##### Canada

MacMillan Bloedel Building Materials

Dartmouth, N.S.

Moncton, N.B.

Drummondville, Que.

Montreal, Que.

Noranda, Que.

Quebec City, Que.

Rimouski, Que.

Belleville, Ont.

Chatham, Ont.

Fonthill, Ont.

Kitchener, Ont.

London, Ont.

North Bay, Ont.

Orillia, Ont.

Ottawa, Ont.

Owen Sound, Ont.

Sault Ste. Marie, Ont.

Sudbury, Ont.

Thunder Bay, Ont.

Timmins, Ont.

Toronto, Ont.

Winnipeg, Man.

Regina, Sask.

Edmonton, Alta.

Calgary, Alta.

Lethbridge, Alta.

Vancouver, B.C.

Chemainus, B.C.

Port Alberni, B.C.

Kingsway Lumber Co. Limited

Toronto, Ont.

MacMillan Jardine (North America) Limited

Vancouver, B.C.

Hardwoods

### United States

MacMillan Bloedel (New York) Inc.

Stamford, Conn.

MacMillan Bloedel (Alabama) Inc.

Birmingham, Ala.

MacMillan Bloedel Building Materials

Walpole, Mass.

Wayne, N.J.

Camden, N.J.

Baltimore, Md.

Fort Lauderdale, Fla.

Jacksonville, Fla.

West Hartford, Conn.

Atlanta, Ga.

Houston, Tex.

Portland, Ore.

Robert S. Osgood, Inc.  
Los Angeles, Calif.  
Hardwoods

United Kingdom

MacMillan Bloedel Meyer Limited  
London

MacMillan Bloedel Panelboard Agencies Limited  
London

Australia

MacMillan Bloedel Pty. Limited  
Sydney, Melbourne

Orient

MacMillan Jardine Limited  
Hong Kong, Tokyo

### Pulp and Paper

#### Australia

MacMillan Bloedel Pty. Limited  
Sydney, Melbourne

#### Canada

MacMillan Bloedel Limited  
Vancouver, B.C.

#### Orient

MacMillan Jardine Limited  
Hong Kong, Tokyo, Singapore,  
Malaysia and Thailand

United Kingdom and Europe

MacMillan Bloedel Europe B.V.  
Paris

MacMillan Bloedel Pulp and  
Paper Sales Limited  
London

#### United States

MacMillan Bloedel Sales Inc.  
Stamford, Conn.; Atlanta, Ga.

Powell River-Alberni Sales Corporation  
Seattle, Wash.; San Bruno,  
Pasadena, Calif.

Star Terminal Company,  
Incorporated  
San Francisco, Long  
Beach, Calif.

## Directors

**Anson Brooks**  
Seattle, Washington, U.S.A.  
President, Powell River-Alberni  
Sales Corporation

**A. B. Christopher**  
Vancouver, British Columbia  
President, Montrose Development Ltd.

**J. O. Hemmingsen**  
Vancouver, British Columbia  
Senior Vice-President, International,  
MacMillan Bloedel Limited

**G. H. D. Hobbs**  
Vancouver, British Columbia  
President, Cominco Ltd.

**J. N. Hyland**  
Vancouver, British Columbia  
President, Granduc Mines, Limited

**C. C. Knudsen**  
Vancouver, British Columbia  
President and Chief Executive Officer,  
MacMillan Bloedel Limited

**J. M. Meyer C.B.E.**  
London, England  
Chairman and Managing Director,  
Montague L. Meyer Limited

**William Moodie**  
Montreal, Quebec  
President, Canadian Pacific  
Investments Limited

**E. C. Phillips**  
Vancouver, British Columbia  
President and Chief Executive Officer,  
Westcoast Transmission Company Limited

**J. E. Richardson**  
Vancouver, British Columbia  
Chairman of the Board,  
MacMillan Bloedel Limited

**I. D. Sinclair Q.C.**  
Montreal, Quebec  
Chairman and Chief Executive Officer,  
Canadian Pacific Limited

**G. T. Southam**  
Vancouver, British Columbia  
President, Gordco Investments Limited

**J. A. Taylor**  
London, Ontario  
Honorary Chairman, Canada Trust

**The Honourable J. N. Turner  
P.C., Q.C.**  
Toronto, Ontario  
Partner, McMillan Binch

**J. P. R. Wadsworth**  
Toronto, Ontario  
Chairman, Confederation Life Insurance  
Company

**C. B. Wright**  
Seattle, Washington, U.S.A.  
Private Investor

## Executive Committee

**J. E. Richardson**  
(Chairman)

**G. H. D. Hobbs**

**J. N. Hyland**

**C. C. Knudsen**

**William Moodie**

**J. A. Taylor**

**C. B. Wright**

## Honorary Directors

**The Honourable  
J. V. Clyne C.C.,  
K. St. J.**

Vancouver, British Columbia

**W. J. VanDusen**  
Vancouver, British Columbia

## Senior Officers

**J. E. Richardson**

Chairman of the Board

**C. C. Knudsen**

President and Chief Executive Officer

**D. H. Fricker Q.C.**

Senior Vice-President, Law and Corporate  
Affairs

**J. O. Hemmingsen**

Senior Vice-President, International

**B. I. Howe**

Senior Vice-President, Operations

**D. H. Parkinson**

Senior Vice-President, Finance and  
Planning

**Wilhelm Peppler**

Chairman, MacMillan Bloedel Europe B. V.

**J. H. Lawson**

Group Vice-President, Raw Materials

**D. L. McLaughlin**

Group Vice-President, Linerboard and  
Packaging

**J. St. C. Ross**

Group Vice-President, Building Materials

**R. V. Smith**

Group Vice-President, Pulp and Paper

**Dr. O. L. Forgacs**

Vice-President, Research and Development

**G. J. Towill**

Vice-President, Human Resources

## Group Officers

**J. S. Adair**

Vice-President, Packaging

**K. G. Boyd**

Vice-President, Allocation and  
Control, Raw Materials

**C. M. Dee**

Vice-President, Panelboard

**S. W. Forstrom**

Vice-President, Manufacturing,  
Pulp and Paper

**D. B. Turner**

Vice-President, Woodlands

**R. N. Wiewel**

Vice-President, Marketing,  
Pulp and Paper

## Staff Officers

**G. L. Ainscough**

Chief Forester

**F. H. Britton Q.C.**

Vice-President and General Counsel  
Secretary

**J. R. Croll**

Vice-President, Administration

**J. G. Dickinson**

Vice-President,  
Planning and Analysis

**G. P. Haslam**

Vice-President, Corporate Communications

**E. G. Legg**

Vice-President, Accounting

**J. S. Rogers**

Vice-President, Engineering

**G. M. Wilson**

Treasurer

**R. D. MacFayden**

Assistant Secretary

**C. K. Smith**

Assistant Secretary

## Registrars and Transfer Agents

**The Royal Trust Company**  
Vancouver

**The Canada Trust Company**  
Calgary, Regina, Winnipeg, Toronto,  
Montreal

**The Chase Manhattan Bank**  
New York

## Auditors

**Price Waterhouse & Co.**  
Vancouver

## Audit Committee

**C. B. Wright**  
(Chairman)

**G. H. D. Hobbs**

**J. N. Hyland**

**William Moodie**

**J. A. Taylor**





